USI Group Holdings AG

Annual Report 2008

USI®

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Company Information

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)

Company Secretary
Dr Doraiswamy Srinivas

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Registered Number
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Chairman's Statement

for the year ended 31 December 2008

The Company is pleased to report its financial results for the year ended 31 December 2008.

The Company's two principal assets are 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 25.16% 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. The RBS loan facility was based on a valuation of the Leipzig Properties of €182 million which was reaffirmed by independent valuers retained by the Company at 31 December 2008.

In December of 2008, RBS commissioned a separate valuation of the Leipzig Properties which concluded that their market value was €158 million at that time even though all rental income has been received without interruption in accordance with the terms of the lease and all debt service covenants contained in the RBS facility have continued to be met in all respects. Despite accepting the €182 million valuation earlier in 2008, the RBS syndicate notified the Company on 19 January 2009 that the loan to value ('LTV') ratio in the RBS loan facility had risen above 70%, the maximum permitted. The Company believes that the new RBS valuation is overly conservative and does not take sufficient account of the credit worthiness of the sovereign tenant, the stability of the cash flows, the replacement value of the Leipzig Properties or the potential rents that could be achieved on expiration of the lease, matters referred to in the note on Critical Estimates later in this report. Nevertheless, the Company entered into negotiations with the RBS syndicate and another private bank in order to secure second mortgage funding of at least €14.6 million to cure non-compliance with the LTV covenant by paying down a portion of the senior debt as well as a proportionate amount of the interest rate swap entered into with RBS. The Company expects that the second mortgage financing and negotiations with the RBS syndicate to cure non-compliance with the LTV covenant will be concluded shortly.

The Company is extremely happy with its investment in the Leipzig Properties and believes that they 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. Prior to that time, the Company owned 100% of the assets held by PSPI. PSPI has continued to pay cash dividends, fully covered by cash earnings, at the rate of 4% of the IPO price. PSPI's net assets declined by less that 1% during 2008 despite difficult market conditions for all property companies. However, the Swiss Franc

Chairman's Statement

appreciated by 32% between the end of 2007 and the end of 2008 resulting in an adverse foreign exchange movement of CHF 19 million on the Company's investment in PSPI. This loss has been adjusted through the translation reserve in the Company's balance sheet.

Overall, the Company is reporting a loss of CHF 5.4 million for the year ended 31 December 2008 compared to a profit of CHF 21.0 million for the year ended 31 December 2007. However, these numbers reflect several non cash items which, if excluded, would have resulted in an adjusted loss for 2008 of CHF 2.02 million compared to a loss of CHF 2.08 million for 2007.

Gross assets at 31 December 2008 were CHF 365 million compared to CHF 449 million at the end of 2007. Investment properties at the end of 2008 totalled CHF 271 million compared to CHF 302 million at the end of 2007 primarily as a result of a 10% appreciation of the Swiss Franc against the Euro between year ends. Investment in associates was CHF 40 million at the end of 2008 compared to CHF 59 million at the end of 2007 due to the 32% appreciation of the Swiss Franc against sterling reported above. The adverse movement in foreign exchange on these items of approximately CHF 25 million has been reflected in the translation reserve in the Company's balance sheet.

Shareholders' funds at 31 December 2008 were CHF 117 million compared to CHF 158 million at 31 December 2007, after a capital distribution to shareholders was paid in August 2007 in the amount of CHF 8.90 per share. The Company offered shareholders the right to subscribe for new shares up to the amount of the capital distribution which resulted in the Company issuing 30,364 new shares at CHF 159 per share (nominal value CHF 77.65 per share), which equates to 68% of the capital distribution being reinvested into the shares of the Company. The Company will propose a further distribution to shareholders at the rate of CHF 8.90 per share at the Annual General Meeting to be held on 26 May 2009.

Our Company's objective is to focus on investment opportunities which offer predictability and sustainability of cash flow, preservation of capital and potential for further capital appreciation. We believe that this objective is particularly appropriate during these times when financial disruptions have affected all economies of the world. The Company is actively reviewing a number of investment opportunities in government tenanted properties in Continental Europe and elsewhere and Management is proposing an increase in authorised share capital at the forthcoming Annual General Meeting to support these potential acquisitions.

Full details of the Company's board members and other relevant information 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 2009

Directors' Report

for the year ended 31 December 2008

The directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2008.

Principal Activity

The Company's principal activity is that of an investment holding company. The consolidated income statement is set out on page 9. 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 2008, 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 2008 was Dr. Doraiswamy Srinivas, who has been secretary since his appointment on 30 June 2005.

Auditors

The appointed auditors are PricewaterhouseCoopers AG.

Directors' Interests

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

	31 Dec 2008	31 Dec 2007
Dr. iur. V. Lanfranconi	465,739	436,964
Mr. Robert Bider	Nil	Nil
Mr. Armin Hilti	1,586	Nil
Dr. Volkert Klaucke	Nil	Nil
Mr. William Vanderfelt	13,822	10,064
Mr. David Quint	Nil	Nil
Dr. Doraiswamy Srinivas	Nil	Nil

The company has in issue 53,013 (2007: 50,223) 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:

Lanfranconi

Dr. iur. Victor Lanfranconi
Chairman, 28 April 2009

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

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Birchstrasse 160
8050 Zurich
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Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the consolidated financial statements of USI Group Holdings AG on pages 9 to 59 and 66 to 68, which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements for the year ended 31 December 2008.

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 2008 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 Swiss law and article 13 of the Additional Rules for the Listing of Real Estate Companies of the SIX Swiss Exchange.

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 article 11 AOA) 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.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Balkanyi	**Adrian Steiner**
Audit expert	Audit expert
Auditor in charge	

Zurich, 28 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 CHF	2007 CHF
Revenue		**13,954,325**	**–**
Fair value gain on Investment Properties	12	–	24,421,040
Administrative expenses	7a	(4,676,235)	(3,981,168)
Other income/(expenses)	7b	450,807	(1,039,880)
Net Finance income/(expenses)	8	953,750	(371,260)
Operating profit		**10,682,647**	**19,028,732**
Net Finance costs	9	(15,584,352)	(1,087,546)
Share of (loss)/profit of associates	13	(188,590)	2,383,781
(Loss)/Profit before income tax		**(5,090,295)**	**20,324,967**
Income tax expense	22	(265,188)	(3,903,384)
Net (Loss)/Profit from continued operations		**(5,355,483)**	**16,421,583**
Net Profit from discontinued operations	5	–	4,571,441
(Loss)/Profit for the year		**(5,355,483)**	**20,993,024**
Attributable to:			
Equity holders of the Company		(5,355,483)	20,993,024
		CHF per share	**CHF per share**
Basic earnings per share			
Continued operations (loss)/earnings per share	10	(6.65)	20.90
Discontinued operations earnings per share	10	–	5.82
Total (loss)/earnings per share	**10**	**(6.65)**	**26.72**
Diluted earnings per share			
Continued operations diluted (loss)/earnings per share	10	(6.65)	18.35
Discontinued operations diluted earnings per share	10	–	5.00
Total diluted (loss)/earnings per share	**10**	**(6.65)**	**23.35**

The notes on pages 16 to 59 form part of these financial statements.

Consolidated Balance Sheet

for the year ended 31 December 2008

	Note	2008 CHF	2007 CHF
Assets			
Non-current assets			
Investment property	12	271,428,571	302,546,880
Investments in associates	13	39,855,735	59,105,155
		311,284,306	**361,652,035**
Current assets			
Receivables and prepayments	16	40,620,131	247,960
Cash		12,797,029	87,515,075
Total current assets		**53,417,160**	**87,763,035**
Total Assets		**364,701,466**	**449,415,070**
Equity			
Capital and reserves			
Share Capital	18	64,619,736	69,385,681
Share Premium	18	5,691,010	3,309,033
Treasury Shares	18	(664,533)	–
Cash flow hedging reserve		(6,411,904)	859,958
Translation reserve		(27,613,268)	(1,862,201)
Retained Earnings		81,052,664	86,408,147
Total Equity		**116,673,705**	**158,100,618**

	Note	2008 CHF	2007 CHF
Liabilities			
Non-current liabilities			
Borrowings	19	15,369,549	14,651,018
Derivative financial instruments	17	6,304,872	359,977
Deferred taxation	20	3,705,834	3,903,384
Other financial liability	21	3,699,447	4,310,560
		29,079,702	**23,224,939**
Current liabilities			
Trade and other payables	23	59,152	263,777,019
Borrowings	19	213,493,865	–
Accruals	24	5,297,721	3,262,620
Derivative financial instruments	17	97,321	1,049,874
		218,948,059	**268,089,513**
Total liabilities		**248,027,761**	**291,314,452**
Total Equity and Liabilities		**364,701,466**	**449,415,070**

The consolidated financial statements on pages 9 to 59 were approved by the board of directors on 28 April 2009 and were signed on its behalf by:

Dr. iur. V. Lanfranconi
Chairman

Mr. Armin Hilti
Director

The notes on pages 16 to 59 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 CHF	2007 CHF
Cash flow from operating activities			
Cash used by operations	25	7,740,302	(2,046,711)
Interest paid		(11,197,790)	(675,046)
Net cash used by operating activities (continued operations)		**(3,457,488)**	**(2,721,757)**
Net cash generated from operating activities (discontinued operations)		–	537,839
Net cash used by operating activities		**(3,457,488)**	**(2,183,918)**
Cash flow from investing activities			
Proceeds from sale of subsidiary (net of cash)	5	–	91,543,689
Costs associated with sale of subsidiary	5	–	(2,226,858)
Purchase of investment property	12	(265,938,576)	(8,288,987)
Cash paid for loans and receivables	16	(40,265,795)	–
Dividends received	13	2,044,550	782,166
Interest received		2,140,876	3,840,322
Net cash generated/(used) from investing activities (continued operations)		**(302,018,945)**	**85,650,332**
Net cash generated from investing activities (discontinued operations)		–	1,464,798
Net cash used in investing activities		**(302,018,945)**	**87,115,130**
Cash flow from financing activities			
Proceeds from borrowings	19	238,715,791	–
Payments in relation to borrowings		(2,773,241)	
Purchase of Treasury Shares	18	(664,533)	–
Payment for release of warrants		–	(1,489,732)
Capital increases	18	4,827,876	4,300,506
New issue costs	18	(85,098)	(96,683)
Par value capital reduction	18	(7,126,746)	(6,924,235)
Net cash (used)/generated by financing activities (continued operations)		**232,894,049**	**(4,210,144)**

	Note	2008 CHF	2007 CHF
Net cash (used) by financing activities (discontinued operations)		–	(1,316,698)
Net cash (used)/generated by financing activities		**232,894,049**	**(5,526,842)**
Increase/(decrease) in cash and cash equivalents		**(72,582,384)**	**79,404,370**
Movement in cash and cash equivalents			
At start of year		87,515,075	11,483,738
Increase/(Decrease)		(72,582,384)	79,404,370
Foreign currency translation adjustments		(2,135,662)	(3,373,033)
At end of year		**12,797,029**	**87,515,075**
Increase in cash and cash equivalents of discontinued operations	29	–	685,939
Foreign currency translation adjustments		–	3,050
Cash and cash equivalents at the beginning of the year of discontinued operations		–	5,839,321
Deconsolidation		–	(6,528,310)
Cash and cash equivalents at the end of the year of discontinued operations		**–**	**–**
Increase in cash and cash equivalents of continued operations		(72,582,384)	78,718,431
Effect on deconsolidation		–	6,528,310
Foreign currency translation adjustment		(2,135,662)	(3,376,083)
Cash and cash equivalents at the beginning of the year of continued operations		87,515,075	5,644,417
Cash and cash equivalents at the end of the year of continued operations		**12,797,029**	**87,515,075**

In 2007 the Company acquired an investment property (see Note 12), the major payment to the vendor in relation to this acquisition was made in 2008.

The notes on pages 16 to 59 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2008

		Attributable to equity holders of the Company						
	Note	Share Capital CHF	Share Premium CHF	Translation Shares CHF	Translation Reserve CHF	Retained Earnings CHF	Cash Flow Hedging Reserve CHF	Total Equity CHF
Balance as of 1 January 2007		**74,338,282**	**1,076,844**	**–**	**9,509,088**	**65,415,123**	**1,224,991**	**151,564,249**
– Continued		74,338,282	1,076,844	–	–	65,415,123	–	140,830,250
– Discontinued		–	–	–	9,509,008	–	1,224,991	10,733,999
Foreign currency translation		–	–	–	(11,371,209)	–	–	(11,371,209)
Cash flow hedges – net		–	–	–	–	–	(365,033)	(365,033)
Net income/(expense) recognised directly in equity		**–**	**–**	**–**	**(11,371,209)**	**–**	**(365,033)**	**(11,736,242)**
Profit for the year		–	–	–	–	20,993,024	–	20,993,024
Total recognised income for 2007		–	–	–	(11,371,209)	20,993,024	(365,033)	9,256,782
Par value capital reduction	18	(6,924,235)	–	–	–	–	–	(6,924,235)
Issue of new shares	18	1,971,634	2,328,872	–	–	–	–	4,300,506
New issue costs	18	–	(96,683)	–	–	–	–	(96,683)
Balance as of 31 December 2007 and 1 January 2008		**69,385,681**	**3,309,033**	**–**	**(1,862,201)**	**86,408,147**	**859,958**	**158,100,618**

	Note	Attributable to equity holders of the Company						
		Share Capital CHF	Share Premium CHF	Translation Shares CHF	Translation Reserve CHF	Retained Earnings CHF	Cash Flow Hedging Reserve CHF	Total Equity CHF
Foreign currency translation		–	–	–	(25,751,067)	–	–	(25,751,067)
Cash flow hedges – net		–	–	–	–	–	(7,271,862)	(7,271,862)
Net income/(expense) recognised directly in equity		–	–	–	(25,751,067)	–	(7,271,862)	(33,022,929)
(Loss)/Profit for the year		–	–	–	–	(5,355,483)	–	(5,355,483)
Total recognised income for 2008		–	–	–	(25,751,067)	(5,355,483)	(7,271,862)	(38,378,412)
Purchase of own shares	18	–	–	(664,533)	–	–	–	(664,533)
Par value capital reduction	18	(7,126,746)	–	–	–	–	–	(7,126,746)
Issue of new shares	18	2,360,801	2,467,075	–	–	–	–	4,827,876
New issue costs	18	–	(85,098)	–	–	–	–	(85,089)
Balance as of 31 December 2008		**64,619,736**	**5,691,010**	**(664,533)**	**(27,613,268)**	**81,052,664**	**(6,411,904)**	**116,673,705**

The cashflow hedging reserve represents the Group's share of the Cashflow hedging reserves of its associated companies.

The proportionate share of cumulative translation differences attributable to the 74.84% disposal of PSPI was CHF 7,116,542 at the end of 2006. The proportionate share of the cash flow hedge reserve attributable to the disposal of PSPI was CHF 916,783 at the end of 2006. The proportionate share of the hedging reserve from 1 January to 26 March 2007 amounted to CHF 1,007,463. The corresponding balance was charged to the income statement as part of the disposal of subsidiaries.

The notes on pages 16 to 59 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General Information

USI Group Holdings AG (the 'Company'), domiciled in Switzerland with its registered office at Bahnhofstrasse 106, CH-8021, Zurich, 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') (see Notes 5 and 29). 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.

2.1.1 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 2008 which have been drawn 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 2007.

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).

There are no new standards, amendments to standards and interpretations are mandatory for the financial year ended 31 December 2008.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted:

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. It is possible that future purchases of the Company will be considered a business acquisition and as such will need to be reviewed closely against the amendments to the standard.

Amendments to IAS 27

Consolidated and separate financial statements (effective as from 1 July 2009, prospective for measurement of non-controlling interest. Early application permitted if IFRS 3R 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. This change is not expected to have any material impact on the group's financial statements.

IFRS 8

Operating Segments (effective as from 1 January 2009, early application permitted). The definition of the segments is now based on management reporting and no longer on the analysis of the benefits and risks. The measurement basis of the segment reporting is also based on internal management information; this means that so called 'Non-GAAP Measures' will be shown in the segment reporting if they serve as internal management information.

In addition to the operating segments IFRS 8 also requires entity-wide disclosures. USI will need to present segmental information for 2009 and 2008 based on internal management information

Amendments to IAS 1

Presentation of financial statements (effective as from 1 January 2009, early application permitted). The amendment now requires a 'Statement of recognised income and expense', similar to the previous optional 'SoRIE'. This statement includes the gains and losses directly recorded in equity without the traditional transactions with shareholders (dividends, share capital increases or repayments). There is an option to combine the 'Statement of recognised income and expense' with the income statement or to disclose it as a separate statement. The principles of valuation and measurement, however, remain unchanged. USI will need to present a 'Statement of recognised income and expense' for 2009 and 2008.

Amendments to IAS 23

Financing costs (effective as from 1 January 2009, early application permitted). Capitalising the financing costs of qualifying assets during the manufacturing phase is now mandatory. The previous capitalisation option is inapplicable (harmonisation with US GAAP). This change is not expected to have any material impact on the group's financial statements.

Amendments to IFRS 2

Share-based payment (effective as from 1 January 2009, early application permitted). The amendment clarifies which types of terms of contract are possible vesting conditions. The amendment of IFRS 2 also specifies that in case of a cancellation of a share-based payment (whether by the entity or by other parties) the whole originally promised payment has to be recognised as expense. This change is not expected to have any material impact on the group's financial statements as there are no employees.

Amendments to IAS 32

Puttable financial instruments and obligations arising on liquidation (effective as from 1 January 2009, early application permitted). The previous difference between borrowings and equity in IAS 32 leads to

Notes to the Consolidated Financial Statements

situations where certain companies did not have any equity. Above all, this was the case for some investment funds or companies with a cooperative legal form where the shareholder has the right to tender the shares of the company. The amendment introduces two exceptions in IAS 32 which permit that such shares are classified as equity where certain strict criteria are met. This change is not expected to have any material impact on the group's financial statements.

Amendment to IFRS 1

'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective 1 January 2009). A first time adopter can value an investment in a subsidiary, jointly controlled entity or associate at historical cost or on a re-valued basis. A dividend paid out from pre-acquisition res-erves will not be automatically considered a return of investment. Rather, it may be an indicator of impairment. This change is not expected to have any material impact on the group's financial statements.

Amendment to IAS 39

'Eligible hedge items (effective 1 July 2009). The amendment refers to complex hedging relationships. Inflation qualifies for hedge accounting only under certain circumstances. In instances of one-sided risks, it is no longer allowed to designate the time value of hypothetical derivatives as a hedging relationship. Amendment will apply retrospectively. This change is not expected to have any material impact on the group's financial statements.

IFRIC 13

Customer loyalty programs (effective as of 1 July 2008, early application permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This is not applicable to the Group.

IFRIC 15

Agreements for the construction of real estate (effective 1 January 2009, early application permitted). Provides guidance on how and when revenue from the construction of real estate should follow IAS 11 'Construction contracts' or IAS 18 'Revenue'. This change is not expected to have any material impact on the group's financial statements.

IFRIC 16

Hedges of a net investment in a foreign operation (effective 1 October 2008, early application permitted) Clarifies Net investment hedging relates to differences in functional, rather than presentation currency, that Hedging instruments can be held anywhere in the group and that IAS 21 requirements apply to the hedged item. This change is not expected to have any material impact on the group's financial statements.

IFRIC 17

Distributions of non-cash assets to owners (effective 1 July 2009, early application permitted). Clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. This change is not expected to have any material impact on the group's financial statements.

IFRIC 18

Transfers of assets from customers (effective 1 July 2009, prospective with some limited retrospective application permitted). Clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. This change is not expected to have any material impact on the group's 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 Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments. The Group is active in one business segment only, the leasing of real estate in Germany. A geographical segment is one that is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Group has the following geographical segments; Germany, United Kingdom, United States and Switzerland.

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, exc-ept 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.

Notes to the Consolidated Financial Statements

The translation rates used are disclosed in Note 6 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.

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.

The Group has leased out a business under a licence agreement. This business has been sold in connection with the disposal of PSPI and its subsidiaries. The business is in respect of the provision of domiciliary care to clients in their own properties which has been licensed to an independent third party for 35 years with annual increases in line with the RPI index – minimum increase of 1.5%, maximum increase of 5%. The operator maintains the right to run the Business and receive any benefits/losses derived from running the business.

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.

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 their 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.

Notes to the Consolidated Financial Statements

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 21).

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.

2.14 Trade Payables and other payables

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

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.

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 provided in full, 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 Negative Goodwill
If the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

(a) reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and

Notes to the Consolidated Financial Statements

(b) recognises immediately in the profit and loss any excess remaining after that reassessment.

2.21 Borrowing costs

Interest on borrowings is charged to the income statement.

2.22 Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

2.23 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.

2.24 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, as a consequence management considers foreign exchange risk to be insignificant to the Group.

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 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 2008, if the Swiss Franc had moved by a three year average movement of 10.3% (2007: 4.1%) against the Pound Sterling with all other variables held constant, profit for the year would have been CHF 115,674 (2007: CHF 686,644) different, mainly as a result of foreign exchange losses on translation of Pound Sterling denominated cash balances.

At 31 December 2008, if the Swiss Franc had moved by three year average movement of 4.2% (2007: 2.1%) against the Euro with all other variables held constant, profit for the year would have been CHF 92,909 (2007: CHF 1,582,252) 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.

(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 cash-flow 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:

Notes to the Consolidated Financial Statements

	2008 CHF	2007 CHF
Shift in basis points	0.5	0.5
Profit impact of increase	(836,230)	226,057
Profit impact of decrease	836,230	(226,507)
Equity impact of increase	(605,000)	–
Equity impact of decrease	605,000	–

(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.

		CHF, 31 December 2008		CHF, 31 December 2007	
	Rating	Credit limit	Balance	Credit limit	Balance
Counterparty					
Bank A	A+	–	4,483,662	41,467,500	70,758,962
Bank B	A	–	2,872,295	–	16,747,412
Bank C	A	–	4,758,262	–	–

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.

(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.

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Borrowings (Note 19)	137,068,498	525,000	17,744,560	–
Trade and other payables (Note 23)	59,126	–	–	–
Other financial liabilities (Note 21)	–	–	3,699,447	–
Total	**137,127,624**	**525,000**	**21,444,007**	**–**
At 31 December 2007				
Borrowings (Note 19)	525,000	525,000	18,269,560	–
Trade and other payables (Note 23)	263,777,019	–	–	–
Other financial liabilities (Note 21)	–	–	–	4,310,560
Total	**264,302,019**	**525,000**	**18,269,560**	**4,310,560**

(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.

Notes to the Consolidated Financial Statements

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 2008 and 2007 were as follows:

	2008 CHF	2007 CHF
Total borrowings	228,863,414	14,651,018
Vendors liabilities and borrowings on discontinued operations	–	263,777,019
Less: cash and cash equivalents	(12,797,030	(87,515,075)
Net debt	**216,066,384**	**190,912,962**
Total equity	116,673,705	158,100,618
Total capital	**332,740,089**	**349,013,580**
Gearing ratio	64.94%	54.7%

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 circumstances. 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 rely 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 11.6 million lower or CHF 12.8 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 24.3 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 as the current rental received is significantly higher that rentals achieved in the wider commercial property market in the location of the Company's investment properties.

(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.

Notes to the Consolidated Financial Statements

(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. The Group has determined that all of its leases are operating leases which were sold in 2007 as a result of the flotation of PSPI (Note 5).

5. Part Disposal of Subsidary Undertaking

Following an announcement made on 20 October 2006 by USI Group Holdings AG, the proposed admission to the AIM market of the London Stock Exchange ('AIM') of the shares of its wholly owned subsidiary Public Service Properties Investments Limited ('PSPI'), was completed on 26 March 2007.

As a result of this, the holding in PSPI was reduced to 25.16%.

In accordance with IAS 28, this holding has been treated as an associate as at 26 March 2007 and accounted for using the equity method of accounting.

Similarly, PSPI has been treated as a wholly owned subsidiary up to the 26 March 2007 and its results (CHF 3,996,244 – see Note 29) included in the income statement to that date.

Profit on the disposal of 74.84% of the subsidiary undertaking was realised as follows:

	2007 CHF
Fair Value of Sales consideration	117,586,247
Fair Value of Assets disposed	(114,784,192)
Costs to sell	(2,226,858)
Profit on Disposal	**575,197**
Profit for the period from discontinued operations (Note 29)	3,996,244
Total net profit from discontinued operations	**4,571,441**

The fair value of sales consideration consists of both cash received for the direct sale of shares of CHF 98.1 million*. In addition to the Group's share of a capital increase of CHF 20.5 million and a capital increase cost of CHF 1 million in the subsidiary company which occurred concurrently with the AIM listing.

* Cash Proceeds from disposal

	2007 CHF
Cash Received	98,071,999
Less: Bank Accounts related to discontinued operations	(6,528,310)
Net cash inflow before transaction costs	**91,543,689**
Transaction costs	(2,226,858)
Net cash inflow after transaction costs	**89,316,831**

The proportionate fair value of the assets disposed consists of investment properties of approximately CHF 283 million, other non current and current assets of approximately CHF 54 million, borrowing of approximately CHF 170 million, other non current and current liabilities of approximately CHF 44 million and a cumulative foreign exchange and hedging reserve total of approximately CHF 9 million.

6. Foreign Exchange Rates

	Balance Sheet		Income Statement and Cash Flow Statement	
	2008 CHF	2007 CHF	Average 2008 CHF	Average 2007 CHF
GBP	0.6547	0.44448	0.50246	0.41639
USD	0.9473	0.88780	0.92644	0.83354
EUR	0.6720	0.60321	0.63064	0.60879

Notes to the Consolidated Financial Statements

7 (a) Administrative Expenses

	2008 CHF	2007 CHF
Professional fees and other costs	856,870	809,918
Audit fees	165,602	127,499
Property rent, maintenance and sundry expenses	711,198	98,577
Capital Tax Expense	87,604	128,126
Management Fees	2,854,961	2,817,048
	4,676,235	**3,981,168**

Included in property rent, maintenance and sundry expenses are repairs of CHF 59,403 (2007: CHF nil) 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.

7(b) Other Income/(Expenses)

	2008 CHF	2007 CHF
Fair value adjustment through income statement (For further information refer to Note 21)	(450,807)	1,039,880
	(450,807)	**1,039,880**

8. Net Finance Income/(Expenses)

	2008 CHF	2007 CHF
Interest Income	2,358,873	3,912,993
Other Income/(Expenses)		
– Net gain/(loss) from fair value adjustment of options and warrants (Note 17)	1,291,403	(1,130,809)
– Net foreign exchange losses	(2,696,526)	(3,153,444)
	953,750	**(371,260)**

9. Net Finance Costs

	2008 CHF	2007 CHF
Interest Costs		
– Interest on notes	930,900	1,047,117
– Interest on mortgages	12,902,591	–
– Amortisation of debt issue costs - net	1,479,507	–
– Other interest and borrowing expenses	152,211	40,429
– Interest expense on put option	119,143	–
	15,584,352	**1,087,546**

10. 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.

	2008 CHF	2007 CHF
Net (loss)/profit attributable to shareholders	(5,355,483)	20,993,024
Weighted average number of ordinary shares outstanding	804,932	785,609
Basic (loss)/earnings per share (CHF per share)	**(6.65)**	**26.72**
Net (loss)/profit from continued operations	(5,355,483)	16,421,583
Weighted average number of ordinary shares outstanding	804,932	785,609
Basic (loss)/earnings per share on continued operations (CHF per share)	**(6.65)**	**20.90**
Net profit from discontinued operations	–	4,571,441
Weighted average number of ordinary shares outstanding	804,932	785,609
Basic earnings per share on discontinued operations (CHF per share)	**–**	**5.82**

Notes to the Consolidated Financial Statements

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

	2008 CHF	2007 CHF
Total		
Net dilutive (loss)/profit attributable to shareholders	(5,355,483)	21,360,524
Weighted average number of ordinary shares outstanding for dilutive earnings	804,932	914,451
Diluted (loss)/earnings per share (CHF per share)	**(6.65)**	**23.35**
Net dilutive (loss)/profit from continued operations	(5,355,483)	16,789,083
Weighted average number of ordinary shares outstanding	804,932	914,451
Diluted (loss)/earnings per share on continued operations (CHF per share)	**(6.65)**	**18.35**
Net dilutive profit from discontinued operations	–	4,571,441
Weighted average number of ordinary shares outstanding	804,932	914,451
Diluted earnings per share on discontinued operations (CHF per share)	**–**	**5.00**

In December 2002 the Company issued warrants to a third party for an amount of up to $4 million. Under the terms of the warrants, the holder is entitled to exercise the warrants at any time during a two year period following completion of a public offering of shares in the Company at the same share price as that offered at the time of flotation. During 2006 these warrants were fixed so that warrant holders can subscribe for up to 36,341 shares in the Company. These warrants were redeemed during 2007.

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 2008 CHF nil (2007: 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 may be 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 2008 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.

Management has estimated that the maximum number of additional ordinary shares that could be issued at 31 December 2008 as 115,676 (2007: 128,842). 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.

11. Dividends

No dividends were paid in 2008 or 2007. In August 2008 the Company completed a capital distribution to shareholders as described in Note 18.

12. Investment Property

	2008 CHF	2007 CHF
As at 1 January	**302,546,880**	**–**
Additions	–	278,360,588
Net gains on fair value adjustment (Note 25)	–	24,421,040
Net changes in fair value adjustments due to exchange differences	(31,118,309)	(234,748)
As at 31 December	**271,428,571**	**302,546,880**
Fire Insurance Value	139,880,952	155,832,960

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, is was funded by senior debt of €121 million (see Note 19).

Valuations of the investment properties were made as at 31 December 2008 by independent Property Consultants.

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The valuation as at 31 December 2008 was conducted by Botta Management AG and in the previous year by Jones Lang Lasalle, Germany, both independent property consultants. A discounted cash flow method was used to calculate market value assuming a 20 year calculation period. This resulted in a gross capital valuation of €182.43 million (2007: €182.43 million).

The senior debt provider referred to in Note 19 commissioned its own valuation of the investment properties in December 2008 which was conducted by Jones Lang LaSalle and indicated a gross capital valuation of €158 million compared to €182.43 million confirmed by the same valuer at 31 December 2007. The principal differences in the valuations were (a) a widening of the premium in the discount rate assumed for the tenant risk from 50 basis points to 150 basis points over the 10 year government bond applied in the discounted cash flow (DCF) model and (b) a reduction in the rental value on termination of the lease in 2020 from €13.88 per square metre to €8.70 per square metre.

The Company believes that the new RBS valuation is overly conservative and does not take sufficient account of the credit worthiness of the sovereign tenant, the stability of the cash flows and the replacement value of the Leipzig Properties or the potential rents that could be achieved on the expiration of the lease.

On receipt of this information, the Company sought a review by Hunter and Partners Limited, another specialist property consultant based in London who confirmed that it agreed with the assumptions contained in the valuation report prepared by Botta Management AG. As a result, the Company has used the gross capital value included in the Botta Management AG report in preparation of these financial statements.

The Fire Insurance Value is set at €94 million; the movement above is only attributable to movements in exchange rates.

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 66 to 68. This information is part of the notes to the consolidated financial statements.

13. Investments in Associates

	31 Dec 2008 CHF	31 Dec 2007 CHF
As at 1 January	**59,105,155**	**–**
Recognition of Associate (at 26 March 2007)	–	61,251,721
Share of (losses)/profits	(188,590)	2,383,781
Exchange differences	(16,081,511)	(3,999,331)
Dividends Received	(2,044,550)	(782,166)
Cashflow Hedging Reserve	(934,769)	251,150
As at 31 December	**39,855,735**	**59,105,155**

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	(Loss) CHF	% Interest Held
Public Service Properties Investments Limited	British Virgin Islands	116,236,876	(76,411,087)	8,435,702	(188.590)	25.16%

The market price of shares in Public Service Properties Investments Limited at 31 December 2008 was 40.50 (2007: 109.00) pence per share. This values the Group's holding of 16,808,738 shares at £6,807,539 (CHF 10,397,951).

In accordance with IAS 36, 'Impairment of Assets' a test has been performed to compare the recoverable amount with the carrying value to ensure that no impairment has occurred. This has indicated that the value in use of the holding in the associate exceeds its carrying value and as such no impairment has occurred or been recognised in the financial statements.

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14. Financial Instruments by Category

	Note	Loans and receivables CHF	Total CHF
Assets as per balance sheet 2008			
Receivables and Prepayments	16	40,620,131	40,620,131
Cash and cash equivalents		12,797,029	12,797,029
Total		**53,417,160**	**53,417,160**
Cash and cash equivalents is denominated in the following currencies:			
Pounds Sterling		1,123,050	
Euro		6,975,754	
Swiss Francs		4,698,225	
Total		**12,797,029**	

	Note	Derivatives – Fair value through income statement CHF	Other financial liabilities CHF	Total CHF
Liabilities as per balance sheet 2008				
Borrowings	19	–	228,863,414	228,863,414
Other Financial Liabilities	21	–	3,699,447	3,699,447
Derivative financial instruments current	17	97,321	–	97,321
Derivative financial instruments non current	17	6,304,872	–	6,304,872
Total		**6,402,193**	**232,562,861**	**238,965,054**

	Note	Loans and receivables CHF	Total CHF
Assets as per balance sheet 31 December 2007			
Receivables and Prepayments	16	247,960	247,960
Cash and cash equivalents		87,515,075	87,515,075
Total		**87,763,035**	**87,763,035**
Cash and cash equivalents is denominated in the following currencies:			
Pounds Sterling		16,747,412	
Euro		66,389,679	
Swiss Franc		4,377,984	
Total		**87,515,075**	

	Note	Derivatives – Fair value through income statement CHF	Other financial liabilities CHF	Total CHF
Liabilities as per balance sheet 2007				
Borrowings	19	–	14,651,018	14,651,018
Other Financial Liabilities	21	–	4,310,560	4,310,560
Derivative financial instruments current	17	1,049,874	–	1,049,874
Derivative financial instruments non current	17	359,977	–	359,977
Total		**1,409,851**	**18,961,578**	**20,371,429**

Notes to the Consolidated Financial Statements

15. Investments in Subsidaries

The subsidiaries are:

	Country of Incorporation	Ownership Percentage 2008	Ownership Percentage 2007
Continued:			
USIGH Limited (incorporated 14 July 2006)	BVI	100%	100%
USI AG	Switzerland	100%	100%
USIGH II Investments Limited (incorporated 25 October 2007)	BVI	100%	100%
USI Germany Limited (incorporated 29 October 2007)	BVI	100%	100%
USI Leipzig Limited (incorporated 11 July 2007)	BVI	100%	100%
USI Verwaltungszentrum Leipzig GbR (acquired 21 December 2007)	Germany	94.9%	94.9%
Discontinued: (disposed of 26 March 2007) (1)			
Public Service Properties Investments Limited (formerly USI Group Holdings Limited)	BVI	25.16%	25.16%
United Properties Holdings Incorporation	USA	25.16%	25.16%
United Post Office Investments Incorporation	USA	25.16%	25.16%
United Properties Finance Incorporation	USA	25.16%	25.16%
USI Healthcare Investment Company Limited	BVI	25.16%	25.16%
Healthcare Properties UK (Holdings) Limited	BVI	25.16%	25.16%
Healthcare Properties UK Limited	Guernsey	25.16%	25.16%
Healthcare Properties (Ashlea) Limited	Guernsey	25.16%	25.16%
Healthcare Properties (Oxford) Limited	UK	25.16%	25.16%
The Manor House Nursing Home Limited	UK	25.16%	25.16%
Healthcare Properties LDK Limited	Guernsey	25.16%	25.16%
Healthcare Properties Etzelgut Limited	Guernsey	25.16%	25.16%
HCP Wellcare Holdings Limited	Guernsey	25.16%	25.16%
HCP Wellcare Group Holdings Limited	BVI	25.16%	25.16%
Healthcare Properties (Wellcare) Limited	UK	25.16%	25.16%
HCP Wellcare Progressive Lifestyles Limited	UK	25.16%	25.16%
HCP Community Support Services Limited	UK	25.16%	25.16%
HCP Stonelea Limited	UK	25.16%	25.16%
Stonelea Healthcare Limited	UK	25.16%	25.16%
Stonelea Developments Limited	UK	25.16%	25.16%
HCP Wellcare One Limited	UK	25.16%	25.16%
HCP Wellcare Two Limited	UK	25.16%	25.16%
HCP Wellcare Three Limited	UK	25.16%	25.16%
HCP Wellcare Four Limited	UK	25.16%	25.16%
HCP Wellcare Five Limited	UK	25.16%	25.16%

	Country of Incorporation	Ownership Percentage 2008	2007
HCP Wellcare Six Limited	UK	25.16%	25.16%
Hollygarth Care Homes Limited	UK	25.16%	25.16%
PSPI Elliot Celle Limited (incorporated 11 July 2007)	BVI	25.16%	12.58%
PSPI Germany No 1 Limited (incorporated 26 October 2007)*	BVI	25.16%	12.58%
PSPI Germany No 2 Limited (incorporated 26 October 2007)*	BVI	25.16%	12.58%
PSPI Germany No 3 Limited (incorporated 26 October 2007)*	BVI	25.16%	12.58%
PSPI Elliot Bad Nauheim Limited (incorporated 11 July 2007)*	BVI	25.16%	12.58%
PSPI Elliot Marktredwitz Limited (incorporated 11 July 2007)	BVI	25.16%	12.58%
PSPI Germany No 4 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil
PSPI Germany No 5 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil
PSPI Germany No 6 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil
PSPI Germany No 7 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil
PSPI Germany No 8 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil
PSPI Germany No 9 Limited (incorporated 10 June 2008)	BVI	25.16%	Nil

* Treated as Joint Ventures in 2007

(1) Indirect investments through Public Service Properties Investments Limited

All of the above entities were subsidiaries of the Company for the whole of the year unless otherwise stated.

16. Receivables and Prepayments

	2008 CHF	2007 CHF
Other receivables	40,516,880	–
Prepayments	103,251	247,960
	40,620,131	**247,960**

Included in Other Receivables is an amount of CHF 37,202,383 (€25 million) which is held on short term deposit as collateral for the €25million credit facility outlined in Note 19.

Notes to the Consolidated Financial Statements

Included in Other Receivables is an amount of CHF 2,976,190 (€2 million) which was lent on 31 March 2008 to Ridgemont Holdings Limited, a subsidiary company of RP&C Inc. Interest of CHF 145,326 has been accrued in the year on this balance and is also included in Other Receivables.

17. Derivative Financial Instruments

	2008		2007	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Non-current liabilities				
Option Fair Value	–	21,127	–	359,977
Interest Rate Swaps – Cashflow Hedges	–	6,283,745	–	–
	–	**6,304,872**	**-**	**359,977**

Option fair value

The option attached to the convertible note as described in Note 19 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% (2007: 2.90%), credit spread rate of 3.00% (2007: 3.75%) and a volatility of 20% (2007: 15%).

Interest rate swap

The notional principle amount of the interest rate swap at 31 December 2008 was €121million. The principle repayment and interest payment profile of the swap matches that of the mortgage referred to in Note 19. At 31 December 2008 the fixed rate of the interest rate swap was 4.52%.

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

	2008		2007	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Current liabilities				
Warrant Fair Value	–	97,321	–	1,049,874

Warrant Fair Value
The warrants may be exercised at anytime up to expiry on 31 October 2010 and are valued at the difference between the last traded share price prior to 31 December 2008 and the exercise price of CHF 152.20. The Black Scholes model has been used in calculating the fair value of the warrant using a volatility rate of 20% (2007: 15%).

18. Share Capital

	Dec 2008 CHF	Dec 2007 CHF
Authorised:		
Equity interests: 831,122 (2007: 800,758) Ordinary shares of CHF 77.75 (2007: 86.65) each	64,619,736	69,385,681
Allotted, called up and fully paid:		
Equity interests: 831,122 (2007: 800,758) Ordinary shares of CHF 77.75 (2007: 86.65) each	64,619,736	69,385,681

Notes to the Consolidated Financial Statements

	Number of shares	Ordinary shares CHF	Share premium CHF	Total CHF
At 1 January 2007	**778,004**	**74,338,282**	**1,076,844**	**75,415,126**
Par value capital reduction	–	(6,924,235)	–	(6,924,235)
Issue of new shares	22,754	1,971,634	2,328,872	4,300,506
New issue costs	–	–	(96,683)	(96,683)
At 31 December 2007	**800,758**	**69,385,681**	**3,309,033**	**72,694,714**
Par value capital reduction	–	(7,126,746)	–	(7,126,746)
Issue of new shares	30,364	2,360,801	2,467,075	4,827,876
New issue costs	–	–	(85,098)	(85,098)
At 31 December 2008	**831,122**	**64,619,736**	**5,691,010**	**70,310,746**

Under the articles of incorporation share capital may be increased by a maximum of CHF 29,693,503 through the issuance of up to 381,910 registered shares with a nominal value of CHF 77.75 each in respect of conditional capital for management, advisors, bondholders and creditors.

Under the articles of association, the board of directors may increase share capital in the amount of up to CHF 10,317,270 until 27 May 2010 through the issuance of up to 132,698 fully paid in additional registered shares with a nominal value of CHF 77.75 each.

In September 2008 the Company made a capital distribution of CHF 8.90 per share reducing the share capital of the Company from CHF 69,385,282 (800,758 with a nominal value of CHF 86.65 each) to CHF 62,258,934 (800,758 shares with a nominal value of CHF 77.75 each). On the same date the Company approved a reinvestment of CHF 2,360,801 (30,364 shares at par value of CHF 77.75) took place with a subscription price of CHF 159.00 per share.

	2008	2007
Treasury Shares (in number of shares)		
Balance at 1 January	–	–
Purchase of shares	4,727	–
Sale of shares	–	–
Balance at 31 December	**4,727**	**–**
Average price of shares purchased – CHF	140.58	
Average price of shares sold – CHF	–	–

19. Borrowings

	2008 CHF	2007 CHF
Non-current		
Notes	15,369,549	14,651,018
	15,369,549	**14,651,018**
Current		
Mortgages	213,493,865	–
	213,493,865	**–**
Total borrowings	**228,863,414**	**14,651,018**

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 205. The option has been treated as a derivative financial instrument and recognised at fair value as described in Note 17.

On 4 January 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

Notes to the Consolidated Financial Statements

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.

The borrowings in respect of the Leipzig properties have been included in current liabilities as a result of the matter referred to in Note 30.

On 30 November 2007 the Group entered into a one year agreement for a €25,000,000 credit facility. The full amount was drawn down on 3 January 2008. The average rate charged in 2008 was 4.58% whilst the current interest rate is 1.21%.

The maturity of non-current is as follows:

	2008 CHF	2007 CHF
Between 1 and 2 years	–	–
Between 2 and 5 years	15,369,549	14,651,018
Over 5 years	–	–
Non-current borrowings	**15,369,549**	**14,651,018**

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

	Carrying amounts		Fair values	
	2008 CHF	2007 CHF	2008 CHF	2007 CHF
Notes	15,369,549	14,651,018	15,917,371	14,856,510
	15,369,549	**14,651,018**	**15,917,371**	**14,856,510**

The fair values are based on cash flows discounted using a rate based upon a borrowings rate of 6.25% (2007: 6.25%).

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

	2008 CHF	2007 CHF
Swiss francs	15,369,549	14,651,018
Euros	213,493,865	–
	228,863,414	**14,651,018**

20. 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.

	2008 CHF	2007 CHF
Deferred tax liabilities to be recovered after more than 12 months	3,705,834	3,903,384

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

	2008 CHF	2007 CHF
Beginning of the year	3,903,384	–
Income statement charge	265,188	3,903,384
Net changes due to exchange differences	(462,738)	–
End of the year	**3,705,834**	**3,903,384**

In prior years, deferred taxation has been provided on the fair value gains on Investment Property (see Note 12) at a rate of 15.83%.

Notes to the Consolidated Financial Statements

21. Other Financial Liabilities

	2008 CHF	2007 CHF
Liability from put option	3,699,447	4,310,560
	3,699,447	**4,310,560**

The above financial liability relates to the minority holding of 5.1% in the acquired partnership USI Verwaltungszentrum Leipzig 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 company (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.

22. Income Taxes

	2008 CHF	2007 CHF
Current tax	–	–
Deferred tax (Note 20)	(265,188)	(3,903,384)
	(265,188)	**(3,903,384)**

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

	2008 CHF	2007 CHF
Profit/(Loss) before tax per consolidated income statement	**(5,090,295)**	**20,324,967**
Tax calculated at domestic tax rates applicable to profits in the respective countries	398,570	(1,591,445)
Tax losses for which no deferred tax asset was recognised	(319,048)	(942,565)
(Expenses) not tax deductible/income not taxable	(193,035)	611,250
Local tax rate different to parent tax rate	(151,675)	(1,980,624)
Tax charge for continued operations	**(265,188)**	**(3,903,384)**

As at 31 December 2008 the Group had unused tax losses of CHF 18.9 million (2007: CHF 14.9 million), which expires between 2009 and 2015 of which CHF 16.3 million expires after 5 years. 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.

23. Trade and Other Payables

	2008 CHF	2007 CHF
Liability to vendor re: acquisition of Investment Property	–	263,777,019
Other payables	59,152	–
	59,152	**263,777,019**

The liability to vendor relates to the payment due in respect of the investment property acquired on 21 December 2007 as detailed in Note 12. This was funded by a combination of the senior debt drawn down on 4 January 2008 (see Note 19) and existing cash resources of the Group.

24. Accruals

	2008 CHF	2007 CHF
Accrued expenses re: acquisition of Investment Property	1,385,105	3,113,380
Other accrued expenses including interest	3,912,616	149,240
	5,297,721	**3,262,620**

Notes to the Consolidated Financial Statements

25. Cash Generated from Operations

	Note	2008 CHF	2007 CHF
Profit/(loss) for the year attributable to equity holders:		**(5,355,483)**	**20,993,024**
Adjustments for:			
– Interest expenses and other finance expenses	9	15,584,352	2,218,355
– Net foreign exchange losses	8	2,696,526	3,153,444
– Interest income	8	(2,358,873)	(3,912,993)
– Tax	22	265,188	3,903,384
– Changes in fair value of investment property/loans	12	–	(24,421,040)
– Changes in other liabilities		(450,807)	–
– Adjustment to rental income		150,641	–
– Changes in receivables and prepayments	16	(3,069,447)	6,795,662
– Changes in fair value of options and warrants		(1,291,403)	–
– Changes in trade and other payables*		59,152	(3,446,999)
– Changes in accruals	24	1,321,866	(374,326)
– Loss/(Profit) from associate	13	188,590	(2,383,781)
– Profit on sale/discontinued	5	–	(4,571,441)
Cash generated/(used) by operations		**7,740,302**	**(2,046,711)**

* Changes in trade and other payables are net of the purchase of investment properties which represents a significant non-cash transaction (See Cashflow Statement – Page 12).

26. Related Party Transactions

Dr. iur. V. Lanfranconi is a director of the Company and also of some of the subsidiaries. Dr. iur. V. Lanfranconi is the majority beneficial owner of the Company's issued share capital. David Quint and Dr. Doraiswamy Srinivas are directors of RP&C International Inc (RP&C), the Company and some of its subsidiaries. William Vanderfelt is also a non executive director of RP&C and the Company. RP&C is the parent company of RP&C International (Guernsey) Limited which held 6.38% of the issued ordinary share capital of the Company at 31 December 2008 (31 December 2007: 6.27%).

The Group was charged CHF 2,840,551 (2007: CHF 2,208,477) management fees for services rendered by RP&C. One third of these fees received have been re-allocated to Dr. iur. V. Lanfranconi.

The Group was charged €nil (2007: €1,232,000) during the year by RP&C for negotiating new acquisitions. These costs have been capitalised as part of acquisition costs. 40% of these fees have been re-allocated to Dr. iur. V. Lanfranconi.

At 31 December 2008, RP&C was owed CHF 1,620,267 (2007: CHF 1,225,444) by the Group of which Dr. iur. V. Lanfranconi was owed CHF 540,089 (2007: CHF 408,481).

For the year ended 31 December 2008, the Group was charged CHF 268,692 (2007: CHF 235,899) management fees and other charges for services rendered by Dr. iur. V. Lanfranconi.

For the year ended 31 December 2008, the Group was charged CHF 123,904 (2007: CHF 132,164) other charges and expenses by RP&C.

During the year to 31 December 2008 a loan of €2,000,000 was made to Ridgemont Holdings Limited, a wholly owned subsidiary of RPC International Inc. Interest totalling CHF 144,000 has been accrued during the year on this loan.

The following directors' fees were recognised in 2008 and 2007. Of these amounts, CHF 42,275 (2007: CHF 14,093) was outstanding at the year end.

	2008 CHF	2007 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 (2007: CHF 120,000) (Note 31).

The following transactions relate to discontinued operations:

- Until 26 March 2007 USIGH AG was the ultimate controlling party of PSPI, after this date USIGH AG retained a significant interest in the company with a 25.16% shareholding.
- The Group was charged CHF nil (2007: CHF 976,667) management fees for services rendered by RP&C. One third of these fees received have been re-allocated to Dr. iur. V. Lanfranconi.
- The Group was charged CHF nil (2007: CHF 2,227,737) by RP&C during the period for services rendered in connection with the AIM floatation of PSPI. One third of this fee was re-allocated to Dr. iur. V. Lanfranconi.
- In support of the financing of certain UK investment properties, Dr. iur. V. Lanfranconi had originally posted two Letters of Credit with an aggregate value of £900,000, of which the Group has now assumed responsibility of £nil (2007: £600,000) in favour of QBE Insurance Group. During the year, the Group paid CHF nil (2007: CHF nil) in respect of the charges in respect of these Letters of Credit.

Notes to the Consolidated Financial Statements

27. Employees
The Company had no employees at 31 December 2008 (2007: none).

28. Financial Commitments

	2008 CHF	2007 CHF
Commitments for capital expenditure:		
Authorised and contracted for	nil	nil

29. Non-Current Assets Held for Sale and Discontinued Operations
On 20 October 2006, the Group announced that it had appointed advisors in relation to a proposed admission of the shares of its wholly owned subsidiary PSPI to the AIM market of the London Stock Exchange ('AIM'). The transaction was completed on 26 March 2007.

As a result, the Group's holding in PSPI has been reduced to 25.16%. Under the terms of the transaction the investment in PSPI could not be sold before 26 March 2008. The Company received approximately CHF 98 million, net of fees and expenses of CHF 3 million, and reflects a profit of CHF 575,197 as a result of the transaction. The Company maintained a 25.16% holding in the enlarged capital base of PSPI. The investment in PSPI has been treated as a discontinued operation in accordance with IFRS 5.

	2008 CHF	1 January to 26 March 2007 CHF
Operating cash flows	–	537,839
Investing cash flows	–	1,464,798
Financing cash flows	–	(1,316,698)
Total cash flows	**–**	**685,939**

	2008 CHF	1 January to 26 March 2007 CHF
Analysis of the result of discontinued operations:		
Revenue	–	6,811,227
Fair Value Gains	–	6,453,582
Expenses (net of interest income)	–	(6,927,977)
Profit from discontinued operations – before tax	–	6,336,832
Tax	–	(2,340,588)
Profit for the period from discontinued operations	**–**	**3,996,244**

30. Subsequent Events

On 13 January 2009 the Company received a letter from one of its bankers stating that the total value of the loan due to the bank was 78.9% of the collateral provided. This exceeded the 70% covenant referred to in the facility agreement with the bank, based on a valuation report prepared independently on its behalf. Please refer to the Company's position in respect of the valuation as referred to in Note 12.

As a result of the matter referred to in the letter, the bank informed the Company that a cash lock up event had occurred as a result of the loan to value covenant breach. The effect of this notification was that the bank has blocked the surplus cash accruing for the benefit of the Company pending resolution of the covenant breach. The Company and its bankers have been in constant discussion to resolve the issue. The Company has continued to meet all of its debt service covenants in respect of the borrowings and has met all other obligations from working capital resources. The bank has not declared an event of default, which would require the Company to repay all of the outstanding Senior Debt.

The Company has informed the bank that it is in advanced negotiations with a third party to secure second mortgage funding which will be used to repay €14.6 million of the senior debt which will bring the loan to value back to within the 70% prescribed in the facility agreement. The Company is confident that sufficient second mortgage funding can be obtained for this purpose prior to the end of May 2009.

On repayment of a portion of the first mortgage debt, the Group is likely to terminate a proportionate amount of the interest rate swap contract associated with the borrowings. This is likely to result in a cash loss to the Company based on the mark to market price at the time of the transaction. Based on the mark to market valuation used at 31 December 2008 the cash loss is likely to be in excess of CHF 800,000.

Notes to the Consolidated Financial Statements

31. Disclosure of Compensation and Participations of Board of Directors and Group Management

(As required by Art. 663b and Art. 663c. Swiss Code of Obligations)

	Basic Remuneration		Variable Remuneration		
2008 (All amounts in CHF)	**Cash**	**Equities/ Options**	**Cash**	**Equities/ Options**	**Total**
Board of Directors (BoD)					
Dr. iur. V. Lanfranconi	–	–	–	–	–
Mr. 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.					
– Continued (See Note 7a)	2,854,961	–	–	–	2,854,961
– Discontinued	–	–	–	–	–
Total GM	**2,854,961**	**–**	**–**	**–**	**2,854,961**

Basic remuneration of Group Management relates to payments made by the Group in accordance with the Asset Management Agreement.

On 31 December 2008, there were no loans or credit to individual members of the Board of Directors or Group Management. As at 31 December 2008, 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	Share Options Expiring 2009	Expiring 2010	Expiring 2011
Board of Directors (BoD)				
Dr. iur. V. Lanfranconi	465,739	–	–	–
Mr. Robert Bider	–	–	–	–
Mr. Armin Hilti	1,586	–	–	–
Dr. Volkert Klaucke	–	–	–	–
Mr. William Vanderfelt	13,822	–	–	–
Mr. David Quint	–	–	–	–
Dr. Doraiswamy Srinivas	–	–	–	–
Total BoD	**481,147**	**–**	**–**	**–**
Group Management (GM)				
RP&C International Inc.	53,013	–	–	–
Total GM	**53,013**	**–**	**–**	**–**

2007 (All amounts in CHF)	Basic Remuneration Cash	Basic Remuneration Equities/ Options	Variable Remuneration Cash	Variable Remuneration Equities/ Options	Total
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.					
– Continued	1,472,318	–	2,043,518	–	3,515,836
– Discontinued	976,667	–	2,227,737	–	3,204,404
Total GM	**2,448,985**	**–**	**4,271,255**	**–**	**6,720,240**

Notes to the Consolidated Financial Statements

Basic remuneration of Group Management relates to payments made by the Group in accordance with the Asset Management Agreement. Variable remuneration relates to services rendered in connection with the AIM floatation of Public Service Properties Investments Limited (discontinued) and for the negotiation of the new acquisition in Leipzig (continued), a portion of these fees have been allocated to Dr. iur.V.Lanfranconi as described in Note 26.

On 31 December 2007, there were no loans or credit to individual members of the Board of Directors or Group Management.

As at 31 December 2007, the following numbers of participations were held by the Board of Directors and the Group Management (including persons closely related to these members):

		Share Options		
(All amounts in CHF)	**Shares**	**Expiring 2008**	**Expiring 2009**	**Expiring 2010**
Board of Directors (BoD)				
Dr.iur V. Lanfranconi	436,964	–	–	–
Dr. Robert Bider	–	–	–	–
Mr. Armin Hilti	–	–	–	–
Dr. Volkert Klaucke	–	–	–	–
Mr. William Vanderfelt	10,064	–	–	–
Mr. David Quint	–	–	–	–
Dr. Doraiswamy Srinivas	–	–	–	–
Total BoD	**447,028**	**–**	**–**	**–**
Group Management (GM)				
RP&C International Inc.	50,223	–	–	–
Total GM	**50,223**	**–**	**–**	**–**

32. Segment Information

		For the year ended 31 December 2008				
		SEGMENT				
	Note	Germany CHF	UK CHF	US CHF	Switzerland* CHF	Total CHF
Revenue		**13,954,325**	**–**	**–**	**–**	**13,954,325**
Administrative expenses	7(a)	(576,385)	–	–	(4,099,850)	(4,676,235)
Other income/expenses	7(b)	–	–	–	450,807	450,807
Net Finance income	8	23,036	–	–	930,714	953,750
Segment result		**13,400,976**	**–**	**–**	**(2,718,329)**	**10,682,647**
Finance costs – net	9	(12,344,851)	–	–	(3,239,501)	(15,584,352)
Share of loss of associate	13	–	(188,590)	–	–	(188,590)
Segment profit/(loss) before income tax		**1,056,125**	**(188,590)**	**–**	**(5,957,830)**	**(5,090,295)**
Income Taxes	22	(265,188)	–	–	–	(265,188)
Profit/(loss) for the year		**790,937**	**(188,590)**	**–**	**(5,957,830)**	**(5,355,483)**
Attributable to:						
Equity holders of the Company						(5,355,483)
Minority interests						–
						(5,355,483)
Assets						
Segment assets		276,410,907	–	–	48,434,824	324,845,731
Investments in Associates	13	9,057,322	25,007,204	3,012,878	2,778,331	39,855,735
Unallocated assets		–	–	–	–	–
Total assets						**364,701,466**
Liabilities		**(184,818,290)**	**–**	**–**	**(58,861,345)**	**(243,679,635)**
Segment liabilities						(4,348,126)
Unallocated liabilities		–	–	–	–	–
Total liabilities						**(248,027,761)**

* The Switzerland segment includes corporate costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

	Note	SEGMENT Germany CHF	UK CHF	US CHF	Switzerland* CHF	Total CHF
Revenue						
Net gain on fair value adjustments	12	24,421,040	–	–	–	24,421,040
Administrative expenses	7(a)	(165,870)	–	–	(3,815,298)	(3,981,168)
Other expenses	7(b)	(1,039,880)	–	–	–	(1,039,880)
Net Finance income	8	–	–	–	(371,260)	(371,260)
Segment result		**23,215,290**	**–**	**–**	**(4,186,558)**	**19,028,732**
Finance costs – net	9	–	–	–	(1,087,546)	(1,087,546)
Share of profit/(loss) of associate	13	(34,081)	2,912,840	(302,764)	(192,214)	2,383,781
Segment profit/(loss) before income tax		**23,181,209**	**2,912,840**	**(302,764)**	**(5,466,318)**	**20,324,967**
Income Taxes	22	(3,903,384)	–	–	–	(3,903,384)
Net profit from discontinued operations		–	4,368,512	(236,538)	439,467	4,571,441
Profit/(loss) for the year		**19,277,825**	**7,281,352**	**(539,302)**	**(5,026,851)**	**20,993,024**
Attributable to:						
Equity holders of the Company						20,993,024
Minority interests						–
						20,993,024
Assets						
Segment assets		302,546,880	–	–	87,515,075	390,061,955
Investments in Associates	13	1,063,893	49,707,435	4,551,097	3,782,730	59,105,155
Unallocated assets						247,960
Total assets						**449,415,070**
Liabilities						
Segment liabilities		(271,955,941)	–	–	(14,651,018)	(286,606,959)
Unallocated liabilities						(4,707,493)
Total liabilities						**(291,314,452)**

* The Switzerland segment includes corporate costs.

33. Assessment of Risk
(as required by Art. 663b Para. 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.

PRICEWATERHOUSECOOPERS

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

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Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of USI Group Holdings AG on pages 61 to 65, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2008.

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 2008 comply with Swiss law and the company's articles of incorporation.

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 article 11 AOA) 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.

PricewaterhouseCoopers AG

Patrick Balkanyi
Audit expert
Auditor in charge

Adrian Steiner
Audit expert

Zurich, 28 April 2009

Balance Sheet

USI Group Holdings AG

	31.12.2008 CHF	31.12.2007 CHF
Assets		
Cash and cash equivalents	4,694,818	4,365,129
Receivables third parties	969	969
Prepaid expenses	–	16,354
Inter-company	91,977,258	99,133,756
Marketable securities	567,240	–
Total current assets	**97,240,285**	**103,516,208**
Investments	4,327,978	4,327,978
Total non-current assets	**4,327,978**	**4,327,978**
Total Assets	**101,568,263**	**107,844,186**
Liabilities		
Other current liabilities		
Shareholders	38,022	38,022
Accrued expenses	380,399	102,596
Total Liabilities	**418,421**	**140,618**
Share capital	64,619,736	69,385,681
Legal reserves	25,681,043	30,553,255
Free reserves	14,335,468	15,000,000
Treasury Shares	664,532	–
Accumulated deficit	(4,150,937)	(7,235,368)
– Balance carried forward from prior year	–	–
– Annual loss	(4,150,937)	(7,235,368)
Total Shareholders' Equity	**101,149,842**	**107,703,568**
Total Shareholders' Equity and Liabilities	**101,568,263**	**107,844,186**

Income Statement

USI Group Holdings AG

1 January – 31 December	2008 CHF	2007 CHF
Other income	–	–
Directors' fees	(84,552)	(82,446)
Professional fees	(371,726)	(181,500)
Tax consultancy	–	(23,134)
Audit fees	(96,000)	(101,743)
Listing fees	(8,917)	(2,227,738)
Insurance	(19,227)	(32,510)
Abort Costs	–	(2,280)
Management Charges	(2,854,960)	(2,691,807)
Formation, Capital Raising and Organisational Costs	–	(96,993)
Capital tax expenses, reclaims and rent, maintenance and general administration	(532,732)	(321,744)
EBIT	**(3,968,114)**	**(5,791,895)**
Financial expenses	(114,063)	(1,488,195)
Foreign Exchange Losses	(70,440)	–
Financial income	1,680	14,722
Loss before income tax expenses	**(4,150,937)**	**(7,235,368)**
Income tax expense	–	–
Net Loss	**(4,150,937)**	**(7,235,368)**

Notes

USI Group Holdings AG

To the financial statements at 31 December 2008

Disclosures required by Swiss law:

Company information

Capital reduction and reinvestment
During 2008 a capital distribution of CHF 8.90 per share took place that reduced the share capital of USI Group Holdings AG from CHF 69,385,681 (800,758 with a nominal value of CHF 86.65 each) to CHF 62,258,934 (800,758 shares with a nominal value of CHF 77.75 each). Additionally a reinvestment of CHF 2,360,801 (30,364 shares at par value of CHF 77.75) took place with a subscription price of CHF 159.00.

Authorised Share Capital
The share capital may be increased by a maximum amount of up to CHF 10,317,270 until 27 May 2010 through the issuance of up to 132,698 fully paid in registered shares with a nominal value of CHF 77.75 each.

Conditional Share Capital
The share capital may be increased in the amount of up to CHF 29,693,503 through the issuance of up to 381,910 fully paid in registered shares with a nominal value of CHF 77.75.

Significant Shareholders
At the year end, the following significant shareholders were listed in the share register with shareholdings in excess of 5% of issued share capital:

	31.12.08	31.12.07
Dr. iur V Lanfranconi & Mrs Beatrix Lanfranconi Spaeti	56.04%	54.57%
Monkwell Investments Ltd (formerly USI Limited)	6.38%	6.06%
Esquire Consolidated Limited	6.85%	7.11%
USI USA II	4.88%	5.07%

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.

Notes

Significant investments

Company name	Domicile	Share Capital	Shares Held	Type of shares and nominal value	Ownership
USIAG	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.

	2008	2007
Treasury Shares (in number of shares)		
Balance at 1 January	–	–
Purchase of shares	4,727	–
Sale of shares	–	–
Balance at 31 December	**4,727**	**–**
Average price of shares purchased (CHF)	140.58	
Average price of shares sold (CHF)	–	–

Assessment of Risk

(as required by Art. 663b Par 12, Swiss Code of Obligations)
USI Group Holdings AG runs a centralized risk management system which separates strategic risks from operative ones. All identified risks are quantified (according to their realization probability and impact) and located on a risk schedule. This risk schedule is objective of an annually repeating detailed discussion process in the Group's Board of Directors and Audit Committee. The permanent observation and control of the risks is a management objective.

For identified risks, which arise from the accounting and financial reporting, a risk assessment is performed. Throughout the Internal Control System framework on financial reporting relevant control measures are defined, which reduce the financial risk. Remaining risks are categorized depending on their possible impact (low, average, high) and appropriately monitored.

Disclosure of Compensation and Participations of Board of Directors and Group Management

(As required by Art. 663b and Art. 663c. Swiss Code of Obligations)
See Note 31.

Proposal of the Board of Directors for appropriation of accumulated deficit at 31 December 2008

	CHF
Accumulated deficit	
Accumulated deficit at 1 January 2008	(7,235,368)
Offsetting balance of accumulated deficit carry forward with legal reserve on general meeting of shareholders on 27 May 2008	7,235,368
Balance after general meeting of shareholders on 27 May 2008	**–**
Net loss 2008	(4,150,937)
Accumulated deficit	(4,150,937)
Offsetting balance of accumulated deficit carry forward with legal reserve	4,150,937
Accumulated deficit carried forward	**–**

Other Information (Audited)

for the year ended 31 December 2008

Property Details

Name & Address	Owner[1]	Ownership status[2]	Approx year of construction	Year of renovation	% of leased usable space	As % of Investment Properties Portfolio	Gross lettable area M[3]
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 14,174,058*)	100.00%

* Exchange rate based on EUR: CHF = 0.63064.

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.

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 worse the present value of such a cash flow is. Since properties represent very durable values, most properties still show after the examination period (normally 10 years) has expired a significant residual value. 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 from the current value.

(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 4.9% was used for the valuation at 31 December 2008.

Other Information (Audited)

(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 5.1%

(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.

(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.

In addition to the Botta valuation an independent appraiser from the UK (Hunter and Partners Limited) which is a member of the Royal Institute of Chartered Surveyors ('RICS'), has reviewed and confirmed the Botta valuation report was prepared in accordance with RICS guidelines and that the assumptions are reasonable given prevailing market conditions at 31 December 2008.

Market Value

With regard to the above, Botta are of the opinion that the Market Value of the subject property as at 31 December is EUR 182,430,000 (in words: One Hundred Eighty Two Million, Four Hundred and Thirty Thousand Euro)

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

Corporate Governance Report

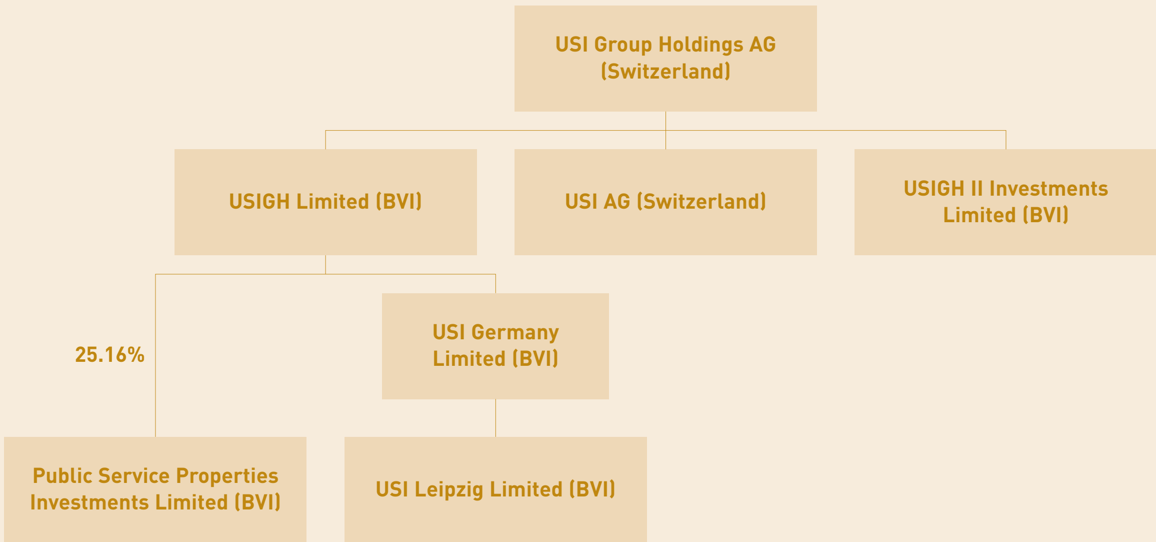
I Corporate Governance

This report describes certain key information relating to corporate governance at USI Group Holdings AG. The report's content and structure fulfill 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 2008, the structure of the group (the 'USI Group') was as follows (for the internal organizational structure, refer to section 3.3 and section 4):



Corporate Governance Report

At 31 December 2008 the principal shareholdings of the USI Group were as follows:

Company	No of Shares Owned	Type of Shares and Nominal Value	Direct/ Indirect Ownership %	Voting Rights %
USIGH Limited, Nerine Chambers, Road Town, Tortola, BVI	2	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)	1	Ordinary US$ 1.0	100	100
USI Leipzig Limited, Nerine Chambers, Road Town, Tortola, (BVI)	1,000	Ordinary no par value	100	100
USIGH II Investments Limited, Nerine Chambers, Road Town, Tortola, (BVI)	1	Ordinary US$ 1.0	100	100

In addition, the Company had a minority participation of 25.16% in Public Services Properties Investments Limited (BVI). As of 31 December 2008 the market value of this participation was £6,807,539. (CHF 10,397,952)

1.2 Significant shareholders

At 31 December 2008 the Company had the following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 77.75	Percentage ownership of total equity capital and voting rights
Dr Victor Lanfranconi and Mrs Beatrix Lanfranconi Spaeti	465,739	56.04%
RP&C International (Guernsey) Limited [1] of PO Box 122, Helvetia Court, South Esplanade, St Peter Port, Guernsey GY1 4EE, Channel Islands	53,013	6.38%
Esquire Consolidated Limited [2]	56,948	6.85%
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	39,971	4.81%
USI–USA I [4] 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	31,772	3.82%
USI–USA II [5] 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	40,595	4.88%
European Asset Value Fund 1 Boulevard Royal, L2449, Luxembourg	39,061	4.70%
Treasury Shares	4,727	0.57%
Other existing shareholders	99,296	11.95%
Total	831,122	100%

[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 Bachmann Trust Company 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. Morgan (Suisse) S.A.

[3] Held through Monkwell Investments Limited. Candies Family Investment LLC owns 40% 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 each holds 34.4% of the shares of USI-USA I, Limited.

[5] Held through Monkwell Investments Limited. Henry S Belden IV, Marathon, Florida, USA, owns 59.1% of the shares of USI-USA II, Limited. In addition, he holds a 90% interest in Southgate Investment, which holds 25% of the shares of USI-USA II, Limited.

Corporate Governance Report

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 64,619,735.50, divided into 831,122 registered shares with a par value of CHF 77.75, fully paid in. The conditional capital for management and advisors amounts to CHF 3,563,204.75 and the conditional capital for bondholders and other creditors amounts to CHF 26,130,297.75.

The authorized capital amounts to CHF 10,317,269.50.

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 10,317,269.50 until 27 May 2010 through the issuance of up to 132,698 fully paid in additional registered shares with a nominal value of CHF 77.75 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 are 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 conditionally by a maximum amount of CHF 3,563,204.75 through the issuance of up to 45,829 registered shares with a nominal value of CHF 77.75 each, which shall be fully paid in, in connection with the exercise of option rights granted to the management and advisors of the company or its subsidiaries. The subscription rights of the shareholders are excluded. The conditions of the option rights, the issue price, the dividend entitlement as well as the type of contribution are determined by the board of directors. The acquisition of registered shares through the exercise of option rights as well as every subsequent transfer of these shares are subject to the registration requirements set forth in the Articles.

Furthermore, pursuant to Article 3b of the Articles the share capital may be increased conditionally by a maximum amount of CHF 26,130,297.75 through the issuance of up to 336,081 registered shares with a nominal value of CHF 77.75 each, which shall be fully paid in, in connection with the exercise of conversion rights, warrant rights or option rights which will be or have been granted to bondholders or other creditors of the company or its subsidiaries. The subscription rights of the shareholders are 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 are 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 listing of option or conversion rights on national or international capital markets. In the event that the right of advance subscription (*Vorwegzeichnungsrecht*) will be withdrawn, (i) the bonds or bonds warrants (*Anleihen oder Optionsanleihen*) have to be placed in the public at the conditions of the market, (ii) the period of time for exercising the conversion and the option rights after the issue has to be fixed, the maturity may not exceed 10 years for conversion rights and option rights, (iii) the exercise price of the new registered shares must be fixed according to market conditions at the time of the 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 registration requirements set forth in the Articles. Part of this conditional capital has been reserved for issues of shares pursuant to the securities referred to in section 2.7.1.

2.3 Changes in capital in the past three years

On 22 May 2006, the general meeting of shareholders resolved to reduce the share capital of the Company from CHF 76,382,000 by CHF 3,398,999 to CHF 72,983,001 by reduction of the par value of the Company's shares from CHF 100 to CHF 95.55.

In connection with the Company's re-investment scheme the board of directors resolved on 11 August 2006 to increase the share capital out of the authorized capital in the amount of CHF 1,355,281.20 from CHF 72,983,001 to CHF 74,338,282.20 through the issuance of 14,184 registered shares with a par value of CHF 95.55 each.

On 30 May 2007, the general meeting of shareholders resolved to reduce the share capital of the Company from CHF 74,338,282.20 by CHF 6,924,235.60 to CHF 67,414,046.60 by reduction of the par value of each of its shares from CHF 95.55 to CHF 86.65.

In connection with the Company's re-investment scheme the board of directors resolved on 28 August 2007 to increase the share capital out of the authorized capital in the amount of CHF 1,971,634.10 from CHF 67,414,046.60 to CHF 69,385,680.70 through the issuance of 22,754 registered shares with a par value of CHF 86.65 each.

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.

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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.

2.4 Shares and participation certificates

As at 31 December 2008, the Company has 831,122 registered shares with a par value of CHF 77.75, 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.

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

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 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 shareholders' meeting, the majority requirement being at least two thirds of the votes represented.

2.7 Convertible bonds and warrants/options

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

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 'Bonds'), some of them with warrants ('Warrants'). 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 205. 42,505 Warrants are outstanding, each of which being exercisable into one share at a price of CHF 152.20 per share and expire on 31 October 2010.

Subject to adjustment under their terms, 84,634 registered shares with a nominal value of CHF 77.75 each of the Company would have to be issued under the terms of the Bonds if all bondholders fully exercised their conversion rights. Subject to adjustment under their terms, 42,505 registered shares with a nominal value of CHF 77.75 each of the Company would have to be issued if all warrantholders fully exercised their Warrants. By 31 December 2008, no shares have been issued under the Bonds and Warrants.

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	2010
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	2010
David Quint	USA/GB	Member	2005	2009

3.1 Members of the Board

Dr iur. Victor Lanfranconi (67), 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.

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Dr Doraiswamy Srinivas (58), Director of Investor Relations, is Chief Operating Officer of RP&C International Inc, New York ('RP&C' or the 'Manager') 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 (58), 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 (63), was Chief Financial Officer and member of the management of Scana Lebensmittel AG, Regensdorf (Switzerland), a former subsidiary of Regedo Holding AG. As former Chief Executive Officer of Regedo Holdings AG, Mr. Hilti substantially contributed to the success of Regedo Holdings AG and its former Swiss and Belgian subsidiaries.

Mr William W. Vanderfelt (65), is a former managing director of the Petercam Group, Belgium, the 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 (61), has over 30 years of experience in the health care industry. He holds a PhD in Technical Sciences and a Master's Degree 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. Hirslanden is a leading private acute care hospital group in Switzerland. He is also a board member of Klinik Hirslanden AG, Grand Hotels Bad Ragaz, Medi-Clinic Switzerland AG and Medi-Clinic Corporation Limited.

Dr Volkert Klaucke (65), 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.

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;

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- 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 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 50,000 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. The committees are responsible for specific duties of the Board. Insofar as these committees are given the power to pass resolutions, they may do so, subject to the ongoing authority of the Board. 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 auditors, RP&C and the Board;

- 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 the Manager 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:

- approve and establish 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;

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- recommend to the Board the director nominees for the next annual shareholder's 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 telephonically and, in limited circumstances, actions may be taken pursuant to circular resolutions. The usual length of the meetings is 1–2 hours. In the year under review five meetings were held. At all of the meetings, senior officers of RP&C (other than executive directors) were present and external legal consultants attended three of the meetings at the invitation of the Chairman.

3.3.3.2 Audit Committee
In the year under review two meetings were held. The usual length of the meetings is 1 hour. A senior officer of RP&C attended both meetings held in the year at the invitation of the Chairman.

3.3.3.3 Nomination and Compensation Committee

In the year under review one meeting was held. The usual length of the meetings is 1 hour. A senior officer of RP&C attended this meeting at the invitation of the Chairman.

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:

- 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;

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- regarding subsidiaries of the Company:
  - the enactment or alteration 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 (see section 4).

3.5 Information and control instruments vis-à-vis senior management
The management periodically provides each member of the Board with a copy of management accounts. 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, mostly in the area of financial planning and reporting.

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 July 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. 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 (48), 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 (42), 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 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).

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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 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 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 USI Group and on behalf of the USI Group either by itself or through its authorized agents in the same manner and with the same force and effect as 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 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 USI Group and effect transactions on behalf of, and for the account 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 USI Group as authorized from time to time by the Board; and

- to enter into, make and perform on behalf 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 this agreement, subject to the prior approval of the Board.

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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's duties.

5. Compensations, shareholdings and loans

5.1.1 Content and method of determining compensation and shareholding programs

The Nomination and Compensation Committee establishes the Company's general compensation policy for directors and direct employees (if any). It proposes to the Board the compensation of directors and employees.

The compensation of the Manager is determined in the Management Agreement (see section 4.3).

5.1.2 Compensation

The non-executive directors of the Board receive a flat fee of CHF 30,000 per annum before statutory deductions. Dr Lanfranconi receives no fee; however, he is reimbursed for office secretarial and related expenses in the amount of CHF 283,100 for the year ended 31 December 2008.

Dr Doraiswamy Srinivas and David Quint are members of the Board of the Company, RP&C and various members 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 (see section 4.3). William Vanderfelt is a director of the Board of the Company and RP&C and receives a director's fee from a subsidiary of the Company in the amount of CHF 30,000 per annum.

5.1.3 Options

The Board adopted a stock option plan in July 2005.

The purpose of the plan is to provide the management of the Company and its subsidiaries from time to time with an opportunity to obtain options on shares and/or stock appreciation rights, and to benefit from the appreciation thereof, thus providing an increased incentive for these persons to contribute to the future success and prosperity of the Company, enhancing the value of the shares for the benefit of the shareholders of the Company and increasing the ability of the Company and its subsidiaries to attract and retain persons of exceptional ability and skill.

No options have been granted as at 31 December 2008.

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 2008. However, on 4 April 2008, the Group advanced a loan to 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.

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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.

A shareholder may be represented at the shareholders' meeting only by his legal representative, by 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 15 days prior to the meeting.

7. Changes of control and defence measures

7.1 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').

7.2 Clauses of change of control
See Section 4.3 for the termination of the Management Agreement.

8. Auditors
PricewaterhouseCoopers AG, Zurich, are the Company's statutory 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 statutory auditors and as group auditors for the financial year 2008 by the annual general meeting held on 27 May 2008.

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 2009 to re-elect PricewaterhouseCoopers AG as statutory auditors and as group auditors for the 2009 financial year. In the case of a re-election of PricewaterhouseCoopers AG for the 2009 financial period, the responsible lead engagement partner for the auditing mandate will be the same as for the 2008 financial year.

8.2 Auditing fees
The total fees for auditing the 2008 consolidated financial statements and all group companies are estimated to be CHF 135,510, of which CHF nil has been invoiced at the date of this report.

8.3 Additional fees
Additional fees of approximately CHF 69,814 were charged by PricewaterhouseCoopers AG during 2008 for tax and other advice.

8.4 Informational instruments pertaining to the external audit
The Board and the Audit Committee liaise directly with the statutory auditors regarding the annual audit work to be carried out and discuss the results of such audits. On request, representatives of the statutory 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). In the year 2008 representatives of the statutory auditors were present at the meeting of the Audit Committee.

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 and the Additional Rules for the Listing of Real Estate Companies.

Corporate Governance Report

Investor Relations

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

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Notes

Notes

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