USI Group Holdings AG

Annual Report 2007

Contents

Directors and Advisors

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

Company Secretary
Dr Doraiswamy Srinivas

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

Registered Office
Bahnhofstrasse 106
Postfach 1317
8021 Zurich
Switzerland

Auditors
PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland

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

Solicitors
Bär & Karrer
Brandschenkestrasse 90
CH 8027 Zurich
Switzerland

Registered Number
CH-020.3.922.903-6

Chairman's Statement

for the year ended 31 December 2007

The Company is pleased to report its financial results for the year ended 31 December 2007.

Our results reflect two significant transactions during the year. On 26 March 2007, the Company reduced the holding in its subsidiary, Public Service Properties Investments Limited ('PSPI') from 100% to 25% of the enlarged share capital through the placement of £75 million of equity, principally to institutional investors at an equivalent of CHF 200 per share (nominal value CHF 95.55 per share). At the same time, the shares of PSPI were admitted to the Alternative Investment Market ('AIM') of the London Stock Exchange. Our results for the 2007 therefore reflect a net profit from discontinued operations of CHF 4.6 million covering the period from 1 January 2007 to 26 March 2007 and a share of profit from associates of CHF 2.4 million covering the period from 27 March 2007 to 31 December 2007.

On 21 December 2007, the Company agreed to acquire 94.9% of a partnership which owns four buildings in Leipzig, Germany leased to the Free State of Saxony (the 'Properties'). The 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. The purchase price for this acquisition was €166 million, which was principally financed by a €121 million senior debt facility from Royal Bank of Scotland plc – Niederlassung, Frankfurt which was concluded on 4 January 2008. The Properties were valued by independent valuers at 31 December 2007 at €182.43 million and the Company recognised fair value gains of CHF 24.4 million with a corresponding deferred taxation charge of CHF 3.9 million. The deferred tax provision is a non cash item and would only crystallise on disposal of the Properties. Net profit for the year before the provision of deferred tax was CHF24.9 million, which represents a 16.4% return on shareholders' equity.

Gross assets at 31 December 2007 were CHF 449 million. Investment property at the end of 2007 totalled CHF 302 million, investment in associates was CHF 59 million and cash on hand was CHF 88 million, the majority of which was used in financing of the acquisition of the Properties.

Shareholders' funds at 31 December 2007 were CHF 158 million compared to CHF 152 million at 31 December 2006, after a capital distribution to shareholders was paid in August 2007 in the amount of CHF 8.90 per share. At the same time, the Company offered shareholders the right to subscribe for new shares up to the amount of the capital distribution. As a result, the Company issued 22,754 new shares at CHF 189 per share (nominal value CHF 86.65 per share), which equates to 61% 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 27 May 2008.

The disposal of a majority interest in PSPI and the acquisition of the Properties were both concluded at a time of difficult market conditions, particularly for companies operating in the real estate sector. We are pleased to have concluded both transactions and believe that they are value enhancing for our shareholders. The Company continues to evaluate further investment opportunities in real estate which is leased, on a long term basis, to tenants whose cash flow is primarily generated, directly or indirectly, from governmental sources. Our objective is to focus on those opportunities that offer predictability and sustainability of cash flow, preservation of capital and potential for further capital appreciation.

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: 25 April 2008

Directors' Report

for the year ended 31 December 2007

The directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2007.

Principal Activity

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

Directors

The directors of the Company at 31 December 2007, 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 2007 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 2007	31 Dec 2006
Dr. iur. V. Lanfranconi	436,964	417,496
Mr. Robert Bider	Nil	Nil
Mr. Armin Hilti	Nil	Nil
Dr. Volkert Klaucke	Nil	Nil
Mr. William Vanderfelt	10,064	10,064
Mr. David Quint	Nil	Nil
Dr. Doraiswamy Srinivas	Nil	Nil

The company has in issue 50,223 (2006 – 47,986) shares indirectly held by RP&C International (Guernsey) Limited. David Quint and Dr. Doraiswamy Srinivas are both directors of RP&C International Inc, the parent company of RP&C International (Guernsey) Limited. The shares are held by Monkwell Investments Limited (formerly USI Limited), a company incorporated in the British Virgin Islands.

By order of the board

Dr. iur. Victor Lanfranconi

Chairman
Date: 25 April 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Phone +41 58 792 44 00
Fax +41 58 792 44 10

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

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements), pages 7 to 63 and 70 to 75, of USI Group Holdings AG for the year ended 31 December 2007.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements 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 Swiss Exchange (SWX).

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

PricewaterhouseCoopers AG

Patrick Balkanyi
Auditor in charge
Zurich, 25 April 2008

Adrian Steiner

Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 CHF	2006 CHF
Fair value gain on Investment Properties	12	24,421,040	–
Administrative expenses	7a	(3,981,168)	(1,465,791)
Other Expenses	7b	(1,039,880)	–
Net Finance income	8	(371,260)	1,770,098
Operating profit/(loss) from continued operations		**19,028,732**	**304,307**
Net Finance costs	9	(1,087,546)	(206,851)
Share of profit of associates	13	2,383,781	–
Profit before income tax from continued operations		**20,324,967**	**97,456**
Income tax expense	22	(3,903,384)	–
Net Profit from continued operations		**16,421,583**	**97,456**
Net Profits from discontinued operations	5	4,571,441	29,067,476
Profit for the year		**20,993,024**	**29,164,932**
Attributable to:			
Equity holders of the Company		20,993,024	29,164,932
		CHF per share	**CHF per share**
Basic earnings per share			
Continued operations earnings per share	10	20.90	0.13
Discontinued operations earnings per share	10	5.82	37.78
Total earnings per share	**10**	**26.72**	**37.91**
Diluted earnings per share			
Continued operations diluted earnings per share	10	18.35	0.53
Discontinued operations diluted earnings per share	10	5.00	32.76
Total diluted earnings per share	**10**	**23.35**	**33.29**

The notes on pages 14 to 63 and 70 to 75 form part of these financial statements.

Consolidated Balance Sheet

for the year ended 31 December 2007

	Note	2007 CHF	2006 CHF
Assets			
Non-current assets			
Investment property	12	302,546,880	–
Investments in associates	13	59,105,155	–
		361,652,035	**–**
Current assets			
Receivables and prepayments	16	247,960	6,970,951
Cash		87,515,075	5,644,417
Total current assets relating to continued operations		**87,763,035**	**12,615,368**
Total assets relating to discontinued operations	29	–	444,444,359
Total Assets		**449,415,070**	**457,059,727**
Equity			
Capital and reserves			
Share Capital	18	69,385,681	74,338,282
Share Premium	18	3,309,033	1,076,844
Cash flow hedging reserve		859,958	–
Translation reserve		(1,862,201)	–
Retained Earnings		86,408,147	65,415,124
Total equity relating to continued operations		**158,100,618**	**140,830,250**
Total equity relating to discontinued operations		–	10,733,999
Total Equity		**158,100,618**	**151,564,249**

	Note	2007 CHF	2006 CHF
Liabilities			
Non-current liabilities			
Borrowings	19	14,651,018	14,113,049
Derivative financial instruments	17	359,977	377,377
Deferred taxation	20	3,903,384	–
Other financial liability	21	4,310,560	–
		23,224,939	**14,490,426**
Current liabilities			
Trade and other payables	23	263,777,019	3,289,235
Accruals	24	3,262,620	523,566
Derivative financial instruments	17	1,049,874	1,391,396
		268,089,513	**5,204,197**
Total liabilities relating to continued operations		291,314,452	19,694,623
Total liabilities relating to discontinued operations	29	–	285,800,855
Total liabilities		**291,314,452**	**305,495,478**
Total Equity and Liabilities		**449,415,070**	**457,059,727**

The consolidated financial statements on pages 7 to 63 were approved by the board of directors on 25 April 2008 and were signed on its behalf by:

Dr. iur. V. Lanfranconi
Chairman

Mr. Armin Hilti
Director

The notes on pages 14 to 63 and 70 to 75 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 CHF	2006 CHF
Cash flow from operating activities			
Cash used by operations	25	(2,046,711)	(2,536,182)
Interest paid		(675,046)	(206,851)
Net cash used by operating activities (continued operations)		**(2,721,757)**	**(2,743,033)**
Net cash generated from operating activities (discontinued operations)		537,839	405,372
Net cash used by operating activities		**(2,183,918)**	**(2,337,661)**
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	12,29a	(8,288,987)	–
Cash paid for loans and receivables	29c	–	–
Dividends received	13	782,166	–
Interest received		3,840,322	6,658
Net cash generated from investing activities (continued operations)		**85,650,332**	**6,658**
Net cash generated from investing activities (discontinued operations)		1,464,798	(5,536,313)
Net cash used in investing activities		**87,115,130**	**(5,529,655)**
Cash flow from financing activities			
Proceeds from borrowings		–	6,824,683
Repayments of borrowings		–	–
Payment for release of warrants		(1,489,732)	–
Capital increases	18	4,300,506	2,538,936
New issue costs	18	(96,683)	(106,811)
Par value capital reduction	18	(6,924,235)	(3,398,999)
Net cash (used)/generated by financing activities (continued operations)		**(4,210,144)**	**5,857,809**
Net cash (used) by financing activities (discontinued operations)		(1,316,698)	(864,687)
Net cash (used)/generated by financing activities		**(5,526,842)**	**4,993,122**
Increase/(decrease) in cash and cash equivalents		**79,404,370**	**(2,874,194)**

	Note	2007 CHF	2006 CHF
Movement in cash and cash equivalents			
At start of year		11,483,738	15,679,834
Increase/(Decrease)		79,404,370	(2,874,194)
Foreign currency translation adjustments		(3,373,033)	(1,321,902)
At end of year		**87,515,075**	**11,483,738**
Increase in cash and cash equivalents of discontinued operations	29	685,939	(5,995,628)
Foreign currency translation adjustments		3,050	(1,321,902)
Cash and cash equivalents at the beginning of the year of discontinued operations		5,839,321	13,156,851
Deconsolidation		(6,528,310)	
Cash and cash equivalents at the end of the year of discontinued operations		**–**	**5,839,321**
Increase in cash and cash equivalents of continued operations		78,718,431	3,121,434
Effect on deconsolidation		6,528,310	–
Foreign currency translation adjustment		(3,376,083)	–
Cash and cash equivalents at the beginning of the year of continued operations		5,644,417	2,522,983
Cash and cash equivalents at the end of the year of continued operations		**87,515,075**	**5,644,417**

Significant non-cash transactions in 2007 relate to the acquisition of investment property (Note 12) as follows:

- Investing Activities (Investment Properties) – CHF 270,071,601
- Outstanding Payments (Trade and other payables, accruals and other financial liabilities) – CHF 270,071,601

Other significant non-cash transactions in 2007 relate to the disposal of PSPI and amounted to CHF 19,514,217 (Note 5)

The notes on pages 14 to 63 and 70 to 75 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2007

	Attributable to equity holders of the Company						
	Note	Share capital CHF	Share premium CHF	Translation reserve CHF	Retained earnings (As restated) CHF	Cash flow hedging reserve CHF	Total Equity (As restated) CHF
Balance as of 1 January 2006 as previously stated		**76,382,000**	**–**	**2,373,980**	**39,642,505**	**(2,420,044)**	**115,978,441**
Restatement (Note 2.1.2)		–	–	–	(3,392,313)	–	(3,392,313)
Balance as of 1 January 2006 as restated		**76,382,000**	**–**	**2,373,980**	**36,250,192**	**(2,420,044)**	**112,586,128**
Cash flow hedges – net		–	–	–	–	3,645,035	3,645,035
Foreign currency translation		–	–	7,135,028	–	–	7,135,028
Net income/(expense) recognised directly in equity		**–**	**–**	**7,135,028**	**–**	**3,645,035**	**10,780,063**
Profit for the year as previously stated		–	–	–	27,164,015	–	27,164,015
Restatement (Note 2.1.2)		–	–	–	2,000,917	–	2,000,917
Profit for the year as restated		**–**	**–**	**–**	**29,164,932**	**–**	**29,164,932**
Total recognised income for 2006 as previously stated		–	–	7,135,028	27,164,015	3,645,035	37,944,078
Par value capital reduction		(3,398,999)	–	–	–	–	(3,398,999)
Issue of new shares		1,355,281	1,183,655	–	–	–	2,538,936
New issue costs		–	(106,811)	–	–	–	(106,811)
Balance as of 31 December 2006 as previously stated		**74,338,282**	**1,076,844**	**9,509,008**	**66,806,520**	**1,224,991**	**152,955,645**
Restatement (Note 2.1.2)		–	–	–	(1,391,396)	–	(1,391,396)
Balance as of 31 December 2006 as restated		**74,338,282**	**1,076,844**	**9,509,008**	**65,415,124**	**1,224,991**	**151,564,249**

	Attributable to equity holders of the Company						
	Note	Share capital CHF	Share premium CHF	Translation reserve CHF	Retained earnings (As restated) CHF	Cash flow hedging reserve CHF	Total Equity (As restated) CHF
Balance as of 1 January 2007 as previously stated		**74,338,282**	**1,076,844**	**9,509,008**	**66,806,520**	**1,224,991**	**152,955,645**
Restatement (Note 2.1.2)		–	–	–	(1,391,396)	–	(1,391,396)
Balance as of 1 January 2007 as restated		**74,338,282**	**1,076,844**	**9,509,088**	**65,415,124**	**–**	**151,564,249**
– Continued		74,338,282	1,076,844	–	65,415,124	–	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		**69,385,681**	**3,309,033**	**(1,862,201)**	**86,408,148**	**859,958**	**158,100,618**

At 31 December 2006 100.00% of the Translation and Cashflow Hedging reserve relate to discontinued operations. The cashflow hedging reserve at 31 December 2007 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 14 to 63 and 70 to 75 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-8023, Zürich, Switzerland, is the ultimate parent company of the USI Group. The Company and its subsidiaries (together the Group), is an investment property Group with a direct and indirect interest in portfolios in Continental Europe, the UK and the USA. It is principally involved in leasing real estate assets where the rental income is primarily generated directly or indirectly from governmental sources.

In March 2007, the Group disposed of 74.84% of its shareholding in Public Services Properties Investments Limited ('PSPI') (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 (see Notes 12 and 30).

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 SWX 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 2007 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 2006.

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

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 December 2007.

IFRS 7

'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new and extended disclosures relating to financial instruments and financial risk management and does not have any impact on the classification and valuation of the Group's financial instruments.

IFRIC 7
'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies' (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period.

IFRIC 8
'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

IFRIC 9
'Re-assessment of embedded derivatives' (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 10
'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

Of the above new standards, only IFRS 7 has had an effect on the financial statements, with new and extended disclosures relating to Financial risk factors (see Note 3).

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

IAS 1 (amended)
'Presentation of financial statements' (effective from 1 January 2009). It primarily affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosures of specific transactions and other events required by other IFRSs.

IAS 23 (amended)
'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

IAS 27 (amended)
(effective for accounting periods beginning on or after 1 July 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These changes will impact the accounting for future transactions with non-controlling interest formerly minority interest.

IAS 32 and IAS 1 (amended)
(effective from 1 January 2009). The amendment requires certain puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity rather than as a liability.

Notes to the Consolidated Financial Statements

IFRS 2 (amended)

(effective for accounting periods beginning on or after 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRS 3 (revised)

'Business combinations' requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. The change may have a significant impact on the accounting for future business combinations.

IFRS 8, 'Operating segments'

(effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

This new standard may impact the manner in which the segments are reported such as the number of reportable segments and measures to be reported. The change may also require management to reallocate goodwill to the newly identified operating segments.

IFRIC 11

'IFRS 2 – Group and treasury share transactions' (effective for periods beginning on or after 1 March 2007); IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

IFRIC 12

'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.

IFRIC 13

'Customer loyalty programmes' (effective from 1 July 2008). 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.

IFRIC 14

'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

The application of these standards is not expected to have any material impact on the group's financial statements in the period of initial application except for IFRS 3 (revised). This may have a significant impact on the treatment of future acquisitions.

2.1.2 Restatement of comparative amounts

The group disclosed in the half year report for 2007 a profit of CHF 8,440,066 on the discontinued operations mentioned above. However, following a review of the financial statements of PSPI for the year ended 31 December 2007, the Group concluded that the presentation of the transaction was incorrectly disclosed in the half year report. As a result of this error the profit on discontinued operations should have been reduced by CHF 3,868,625 to CHF 4,571,441 with a corresponding adjustment to the translation reserves. In addition, the net profit for the six months to 30 June 2007 would also have been reduced by CHF 3,868,625 to CHF 6,529,673. There was no difference to the reported net asset position as a result of these restatements at 30 June 2007. The restated basic earnings per share of the discontinued operations were CHF 6.79 per share rather than CHF 10.82 per share and the diluted earnings per share of the discontinued operations were CHF 6.22 per share rather than CHF 9.92 stated in the half year report. In addition, the net cash generated from investing activities has reduced by CHF 1,461,320 to CHF 96,862,963 in the half year financial statements. The corresponding amount related to the net cash used by the operating activities in the half year report 2007. The adjustments for these errors have been correctly reflected in these financial statements.

In the preparation of the year end financial statements the directors noted that the warrants issued in connection with certain borrowings had not been valued at the balance sheet dates and movements in those values had not been recognised in the income statement. As a result of those errors, the directors have reduced the opening retained earnings at 1 January 2006 by approximately CHF 3.4 million and increased simultaneously the derivative financial instruments within liabilities. Furthermore, the profit for the year ended 31 December 2006 has increased by approximately CHF 2.0 million due to increased finance income with a corresponding net reduction in derivative financial instruments within liabilities. As a result of these errors the earnings per share and diluted earnings per share have increased from CHF 35.31 to CHF 37.91 and from CHF 32.60 to CHF 33.29, respectively.

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 envi-

Notes to the Consolidated Financial Statements

ronment 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, except where deferred in equity as qualifying cash flow hedges.

Group Companies

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

(i) assets and liabilities for each balance sheet are translated at the closing rate at the date of the balance sheet.

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

The translation rates used are disclosed in note 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

Notes to the Consolidated Financial Statements

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.

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.

Notes to the Consolidated Financial Statements

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

(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.

Notes to the Consolidated Financial Statements

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

At 31 December 2007, if the Swiss Franc had moved by three year average movement of 2.1% against the Euro with all other variables held constant, profit for the year would have been CHF 1,568,252 higher or lower due to foreign exchange losses on translation of Euro denominated cash balances.

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

No such risk existed in 2006, other than with assets and liabilities now discontinued.

(ii) Cash flow and fair value interest rate risk

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

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

	2007 CHF	2006 CHF
Shift in basis points	0.5	0.5
Profit impact of increase	226,057	(33,708)
Profit impact of decrease	(226,507)	33,258
Equity impact of increase	–	–
Equity impact of decrease	–	–

(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 2007		CHF, 31 December 2006	
	Rating	Credit limit	Balance	Credit limit	Balance
Counterparty					
Bank A	AA–	41,467,500	70,758,962	–	5,644,066
Bank B	A+	–	16,747,412	–	–
Bank C	AA–	–	7,693	–	6,003

Notes to the Consolidated Financial Statements

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year CHF	Between 1 and 2 years CHF	Between 2 and 5 years CHF	Over 5 Years CHF
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**
At 31 December 2006				
Borrowings (Note 19)	525,000	525,000	18,794,560	–
Trade and other payables (Note 23)	3,289,235	–	–	–
Total	**3,814,235**	**525,000**	**18,794,560**	**–**

(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.

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 2007 and 2006 were as follows:

	2007 CHF	2006 CHF
Total borrowings	14,651,018	14,113,049
Vendors liabilities and borrowings on discontinued operations	263,777,019	228,492,603
Less: cash and cash equivalents	(87,515,075)	(5,644,417)
Net debt	**190,912,962**	**236,961,235**
Total equity	158,100,618	151,564,249
Total capital	**349,013,580**	**388,525,484**
Gearing ratio	54.7%	60.9%

4. Critical Accounting Estimates and Judgements

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

Notes to the Consolidated Financial Statements

(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 affect of the carrying amount of investment properties after deferred taxation would be an estimated CHF12.1 million lower or CHF13.4 million higher.

For the discontinued operations, the net effect of the carrying amount of investment properties after deferred taxation would be an estimated CHF 13.7 million lower or CHF 12.4 million higher.

The expected future market rentals are determined based on the specific terms of the rental contracts.

(c) Treatment of property acquisition in 2007

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

(d) Lease classification

The Group determines the classification of leases on each asset having regard to whether substantially all risks and rewards incidental to ownership of the asset is transferred to the lessee. The Group has determined that all of its leases are operating leases which have been sold in 2007 as a result of the flotation of PSPI (Note 5)

5. Part Disposal of Subsidiary 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:

	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**

Notes to the Consolidated Financial Statements

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.

	CHF
***Cash Proceeds from disposal**	
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	
	2007 CHF	2006 CHF	Average 2007 CHF	Average 2006 CHF
GBP	0.44448	0.41859	0.41639	0.43327
USD	0.88780	0.82005	0.83354	0.79850
EUR	0.60321	–	0.60879	–

7. (a) Administrative Expenses

	2007 CHF	2006 CHF
Professional fees and other costs	938,044	466,106
Audit fees	127,499	146,274
Property rent, maintenance and sundry expenses	98,577	354,041
Abort Costs	–	499,370
Management Fees	2,817,048	–
	3,981,168	**1,465,791**

Management fees in 2006 are included in discontinued operations as they were incurred with the management of net assets disposed of in 2007.

7. (b) Other Expenses

	2007 CHF	2006 CHF
Fair value adjustment through income statement on purchase consideration (Note 21)	1,039,880	–
	1,039,880	**–**

8. Net Finance Income

	2007 CHF	2006 CHF
Interest Income	3,912,993	6,658
Other Income/(Expenses)		
– Net gain/(loss) from fair value adjustment of options and warrants	(1,130,809)	1,763,440
– Net foreign exchange losses	(3,153,444)	–
	(371,260)	**1,770,098**

Notes to the Consolidated Financial Statements

9. Net Finance Costs

	2007 CHF	2006 CHF
Interest Costs		
– Interest on notes	1,047,117	202,302
– Other interest and borrowing expenses	40,429	4,549
	1,087,546	**206,851**

10. Earnings Per Share

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

	2007 CHF	2006 CHF
Net profit attributable to shareholders	20,993,024	29,164,932
Weighted average number of ordinary shares outstanding	785,609	769,338
Basic earnings per share (CHF per share)	**26.72**	**37.91**
Net profit from continued operations	16,421,583	97.456
Weighted average number of ordinary shares outstanding	785,609	769,338
Basic earnings per share on continued operations (CHF per share)	**20.90**	**0.13**
Net profit from discontinued operations	4,571,441	29,067,476
Weighted average number of ordinary shares outstanding	785,609	769,338
Basic earnings per share on discontinued operations (CHF per share)	**5.82**	**37.78**

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

	2007 CHF	2006 CHF
Total		
Net dilutive profit attributable to shareholders	21,360,524	29,532,432
Weighted average number of ordinary shares outstanding for dilutive earnings	914,451	887,149
Diluted earnings per share (CHF per share)	**23.35**	**33.29**
Net dilutive profit from continued operations	16,789,083	464,956
Weighted average number of ordinary shares outstanding	914,451	887,149
Diluted earnings per share on continued operations (CHF per share)	**18.35**	**0.53**
Net dilutive profit from discontinued operations	4,571,441	29,067,476
Weighted average number of ordinary shares outstanding	914,451	887,149
Diluted earnings per share on discontinued operations (CHF per share)	**5.00**	**32.76**

For continued operations the effect of potential ordinary shares is anti dilutive in 2006.

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 2007 CHF nil (2006 – CHF 530,000) 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 2008.

Notes to the Consolidated Financial Statements

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 2007 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 2007 as 128,842 (2006 – 117,811).

11. Dividends

No dividends were paid in 2007 or 2006.

In August 2007 the Company completed a capital distribution to shareholders as described in Note 18

12. Investment Property

	2007 CHF	2006 CHF
As at 1 January	**–**	**–**
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	(234,748)	–
As at 31 December	**302,546,880**	**–**
Fire Insurance Value	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 to be funded by senior debt of €121 million (See Note 30). €5 million of the purchase price was paid as a deposit in 2007.

Valuations of the investment properties were made as at 31 December 2007 by independent Property Consultants.

The valuation as at 31 December 2007 was conducted by Jones Lang LaSalle, Germany. The valuation has been carried out on the basis of Market Value as defined in the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. 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.

Further information required in accordance with the SWX Swiss Exchange's Additional Rules for the Listing of Real Estate Companies can be found on pages 70 to 75. This information is part of the notes to the consolidated financial statements.

13. Investments in Associates

	31 Dec 2007 CHF	31 Dec 2006 CHF
As at 1 January	**–**	**–**
Recognition of Associate (at 26 March 2007)	61,251,721	–
Share of profits	2,383,781	–
Exchange differences	(3,999,331)	–
Dividends Received	(782,166)	–
Cashflow Hedging Reserve	251,150	–
As at 31 December	**59,105,155**	**–**

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

	Country of Incorporation	Assets CHF	Liabilities CHF	Revenues* CHF	Profit* CHF	% Interest Held
Name						
Public Service Properties Investments Limited	British Virgin Islands	144,728,278	(85,623,124)	9,461,352	2,383,781	25.16%

* Revenues and profit relate to the period from 27 March to 31 December 2007.

Notes to the Consolidated Financial Statements

The market price of shares in Public Service Properties Investments Limited at 31 December 2007 was 109.00 pence per share. This values the Group's holding of 16,808,738 shares at £18,321,524 (CHF 41,219,765). The net asset value per share at 31 December 2007 was 156.3 pence per share. This would value the Group's holding at £26,272,057 (CHF 59,105,155).

14. Financial Instruments by Category

	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 Francs		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				
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**

	Note	Loans and receivables CHF	Total CHF
Assets as per balance sheet 31 December 2006			
Receivables and Prepayments	16	6,970,951	6,970,951
Cash and cash equivalents		5,644,417	5,644,417
Total		**12,615,368**	**12,615,368**

Note: All cash held in 2006 was denominated in Swiss Francs.

	Note	Derivatives – Fair value through income statement CHF	Other financial liabilities CHF	Total CHF
Liabilities as per balance sheet				
Borrowings	19	–	14,113,049	14,113,049
Derivative financial instruments current	17	1,391,396	–	1,391,396
Derivative financial instruments non current	17	377,377	–	377,377
Total		**1,768,773**	**14,113,049**	**15,881,822**

Notes to the Consolidated Financial Statements

15. Investments in Subsidiaries

The subsidiaries are:

	Country of Incorporation	Ownership Percentage 2007	Ownership Percentage 2006
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%	–
USI Germany Limited (Incorporated 29 October 2007)	BVI	100%	–
USI Leipzig Limited (Incorporated 11 July 2007)	BVI	100%	–
USI Verwaltungszentrum Leipzig GbR (Acquired 21 December 2007)	Germany	94.9%	–
Discontinued: (disposed of 26 March 2007)			
Public Service Properties Investments Limited (formerly USI Group Holdings Limited)	BVI	25.16%	100%
United Properties Holdings Incorporation	USA	25.16%	100%
United Post Office Investments Incorporation	USA	25.16%	100%
United Properties Finance Incorporation	USA	25.16%	100%
USI Healthcare Investment Company Limited	BVI	25.16%	100%
Healthcare Properties UK (Holdings) Limited	BVI	25.16%	100%
Healthcare Properties UK Limited	Guernsey	25.16%	100%
Healthcare Properties (Ashlea) Limited	Guernsey	25.16%	100%
Healthcare Properties (Oxford) Limited	UK	25.16%	100%
The Manor House Nursing Home Limited	UK	25.16%	100%
Healthcare Properties LDK Limited	Guernsey	25.16%	100%
Healthcare Properties Etzelgut Limited	Guernsey	25.16%	100%
HCP Wellcare Holdings Limited	Guernsey	25.16%	100%
HCP Wellcare Group Holdings Limited	BVI	25.16%	100%
Healthcare Properties (Wellcare) Limited	UK	25.16%	100%
HCP Wellcare Progressive Lifestyles Limited	UK	25.16%	100%
HCP Community Support Services Limited	UK	25.16%	100%
HCP Wellcare One Limited	UK	25.16%	100%
HCP Wellcare Two Limited	UK	25.16%	100%
HCP Wellcare Three Limited	UK	25.16%	100%
HCP Wellcare Four Limited	UK	25.16%	100%
HCP Wellcare Five Limited	UK	25.16%	100%
HCP Wellcare Six Limited	UK	25.16%	100%
Hollygarth Care Homes Limited	UK	25.16%	100%

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

16. Receivables and Prepayments

	2007 CHF	2006 CHF
Other receivables	–	29,280
Prepayments	247,960	969
Amounts owed by Group Undertakings	–	6,940,702
	247,960	**6,970,951**

The balance owed by Group Undertakings was paid during the year, this relating to balances owing from the former subsidiary undertaking Public Service Properties Investments Limited.

17. Derivative Financial Instruments

	2007		2006	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Non-current liabilities				
Option Fair Value	–	359,977	–	377,377

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 2.90% (2006 – 2.50%), credit spread rate of 3.75% (2006 – 3.75%) and a volatility of 15% (2006 – 15%).

Notes to the Consolidated Financial Statements

	2007		2006	
	Assets CHF	**Liabilities** CHF	**Assets** CHF	**Liabilities** CHF
Current liabilities				
Warrant Fair Value	–	1,049,874	–	1,391,396

Warrant fair value

The warrants may be exercised at anytime up to expiry on 31 October 2008 and are valued at the difference between the last traded share price prior to 31 December 2007 and the exercise price of CHF 152.20.

18. Share Capital

	December 2007 CHF	**December 2006** CHF
Authorised:		
Equity interests: 800,758 (2006 – 778,004) Ordinary shares of CHF 86.65 (2006 – 95.55) each	69,385,681	74,338,282
Allotted, called up and fully paid:		
Equity interests: 800,758 (2006 – 778,004) Ordinary shares of CHF 86.65 (2006 – 95.55) each	69,385,681	74,338,282

	Number of shares	Ordinary shares CHF	Share premium CHF	Total CHF
At 1 January and 30 June 2006	**763,820**	**76,382,000**	**–**	**76,382,000**
Par value capital reduction	–	(3,398,999)	–	(3,398,999)
Issue of new shares	14,184	1,355,281	1,183,655	2,538,936
New issue costs	–	–	(106,811)	(106,811)
At 31 December 2006	**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**

In July 2006, the Company resolved to reduce its share capital from CHF 76,382,000 to CHF 72,983,001 by means of a capital reduction of the nominal value of each of its registered shares from CHF 100.00 to CHF 95.55. At the same time, the additional capital was authorised of CHF 20,000,000 (CHF 19,110,000 after the reduction).

In August 2006, the Company completed a par value capital reduction of CHF 4.45 per share.

In order to enable shareholders to re-invest in further registered shares of USI at the time of the capital reduction, the company issued 14,184 new registered shares with a nominal value of CHF 95.55. The subscription price of the new registered shares was CHF 179.00.

Under the articles of incorporation share capital may be increased by a maximum of CHF 33,092,502 through the issuance of up to 381,910 registered shares with a nominal value of CHF 86.65 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 16,100,956 until 22 May 2008 through the issuance of up to 185,816 fully paid in additional registered shares with a nominal value of CHF 86.65 each. The Company will recommend the extension of this provision to shareholders at the Annual General Meeting which is due to be held on 27 May 2008.

Notes to the Consolidated Financial Statements

In August 2007 the Company made a capital distribution of CHF 8.90 per share reducing the share capital of the Company from CHF 74,338,282 (778,004 shares with a nominal value of CHF 95.55 each) to CHF 67,414,047 (778,004 shares with a nominal value of CHF 86.65 each). On the same date the Company approved a reinvestment of CHF 1,971,634 (22,754 shares at par value of CHF 86.65) took place with a subscription price of CHF 189.00 per share.

19. Borrowings

	2007 CHF	2006 CHF
Non-current		
Notes	14,651,018	14,113,049
	14,651,018	14,113,049
Total borrowings	**14,651,018**	**14,113,049**

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.

The maturity of non-current is as follows:

	2007 CHF	2006 CHF
Between 1 and 2 years	–	–
Between 2 and 5 years	14,651,018	–
Over 5 years	–	14,113,049
Non-current borrowings	**14,651,018**	**14,113,049**

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

	Carrying amounts		Fair values	
	2007 CHF	2006 CHF	2007 CHF	2006 CHF
Notes	14,651,018	14,113,049	14,856,510	14,458,121
	14,651,018	**14,113,049**	**14,856,510**	**14,458,121**

The fair values are based on cash flows discounted using a rate based upon a borrowings rate of 6.25% (2006 – 6.25%).

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

	2007 CHF	2006 CHF
Swiss franc	14,651,018	14,113,049
	14,651,018	**14,113,049**

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.

	2007 CHF	2006 CHF
Deferred tax liabilities to be recovered after more than 12 months	3,903,384	–

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

Notes to the Consolidated Financial Statements

	2007 CHF	2006 CHF
Beginning of the year	–	–
Income statement charge	3,903,384	–
Net changes due to exchange differences	–	–
End of the year	**3,903,384**	**–**

Deferred taxation has been provided on the fair value gains on Investment Property (see Note 12) at a rate of 15.83%. The effective tax rate of 15.83% consists of the corporate rate of income tax of 15% plus 5.5% solidarity tax thereon.

21. Other Financial Liabilities

	2007 CHF	2006 CHF
Liability from put option	4,310,560	–
	4,310,560	**–**

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

The seller has an irrevocable right (put option) to sell its 5.1% holding at a fair value to USI during a specified period, the earliest date being 1 March 2013.

22. Income Taxes

	2007 CHF	2006 CHF
Current tax	–	–
Deferred tax (Note 20)	3,903,384	–
	3,903,384	**–**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2007 CHF	2006 CHF
Profit/(Loss) before tax per consolidated income statement	**20,324,967**	**97,456**
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,229,649	7,027
Tax losses for which no deferred tax asset was recognised	942,565	90,414
Expenses not deductible for tax purposes	–	(97,441)
Income not subject to tax	731,170	–
Tax charge for continued operations	**3,903,384**	**–**

The weighted average applicable tax rate was 10.97% (2006 – 7.21%). The increase in the weighted average tax rate is caused by the new asset deal in Leipzig and a change in the profitability of certain of the Group's subsidiaries. As at 31 December 2007 the Group had unused tax losses of CHF 14.9 million (2006 – CHF 2.9 million), which expires between 2008 and 2014. The uncapitalised tax losses relate to a Swiss company without any current operating activities and special tax status and USI Group Holdings which has dividends as a main income. Therefore, these losses were not capitalised as it is unlikely that they will be utilised by the Group. The CHF 14.9 million tax losses expire as follows, CHF 1.3 million between 2008 and 2012, CHF 1.4 million in 2013 and CHF 12.2 million in 2014.

23. Trade and Other Payables

	2007 CHF	2006 CHF
Liability to vendor re: acquisition of Investment Property	263,777,019	–
Other payables	–	38,021
Amounts owed by Group Undertakings	–	3,251,214
	263,777,019	**3,289,235**

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 30) and existing cash resources of the Group.

Notes to the Consolidated Financial Statements

24. Accruals

	2007 CHF	2006 CHF
Accrued expenses re: acquisition of Investment Property	3,113,380	–
Other accrued expenses	149,240	523,566
	3,262,620	**523,566**

25. Cash Generated from Operations

	Note	2007 CHF	2006 CHF
Profit for the year attributable to equity holders:		**20,993,024**	**97,456**
Adjustments for:			
– Interest expense and other finance income		2,218,355	(1,556,589)
– Net foreign exchange losses	9	3,153,444	–
– Interest income	8	(3,912,993)	(6,658)
– Tax	22	3,903,384	–
– Changes in fair value of investment property/loans	12,29(a)	(24,421,040)	–
– Changes in other liabilities		–	–
– Changes in receivables and prepayments	16	6,795,662	(3,698,684)
– Changes in accrued income		–	–
– Changes in trade and other payables*		(3,446,999)	2,287,967
– Changes in accruals	24	(374,326)	340,326
– Profit from associate	13	(2,383,781)	–
– Profit on sale/discontinued	5	(4,571,441)	–
Cash (used) by operations		**(2,046,711)**	**(2,536,182)**

* 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 10).

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 both 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 6.27% of the issued ordinary share capital of the Company at 31 December 2007 (31 December 2006 – 6.17%).

The Group was charged CHF 1,472,318 (2006 – CHF nil) 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 €1,232,000 (2006 – £nil) during the year by RP&C for negotiating new acquisitions, this has been capitalised as part of acquisition costs. 40% of these fees have been re-allocated to Dr iur. V Lanfranconi.

The Group was charged CHF nil (2006 – CHF 450,000) by RP&C during the period for services rendered in connection with an issue of CHF 15million loan notes and redemption of CHF 6.47 million pre-IPO notes. One third of this fee was re-allocated to Dr. iur. V Lanfranconi.

At 31 December 2007, RP&C was owed €739,200 (2006 – £129,086) by the Group and Dr. iur. V Lanfranconi was owed €492,800 (2006 – £64,306).

For the year ended 31 December 2007, the Group was charged CHF 235,899 (2006 – CHF 208,460) management fees and other charges for services rendered by Dr. iur V. Lanfranconi.

For the year ended 31 December 2007, the Group was charged CHF 132,164 (2006 – CHF nil) other charges and expenses by RP&C.

The following directors fees were recognised in 2007 and 2006, of these amounts CHF 14,093 (2006 – CHF 90,000) was outstanding at the year end.

	2007 CHF	2006 CHF
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	–

The total compensation of key management are only directors fees in the total amount of CHF 120,000 (2006 – CHF 90,000) (Note 31).

Notes to the Consolidated Financial Statements

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 976,667 (2006 – CHF 3,973,400) 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 US$ nil (2006 – $460,000) by RP&C during the period for services rendered in connection with the re-financing of $23million loan notes. One third of this fee was re-allocated to Dr. iur V Lanfranconi.

The Group was charged CHF 2,227,737 (2006 – CHF 1,300,000) 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 £600,000 (2006 – £600,000) in favour of QBE Insurance Group. During the year, the Group paid CHF Nil (2006 – CHF 42,215) in respect of the charges in respect of these Letters of Credit.

Esquire Consolidated Limited ('ECL'), one of the shareholders of USIGH AG, has subsidiaries that are customers of the Group. Under various rental contracts total rental income and finance lease income from these contracts for the year ended 31 December 2007 was £Nil (2006 – £7,831,430) and £Nil (2006 – £1,004,483) respectively.

At 31 December 2007 the Group had outstanding loans to subsidiaries of ECL of £Nil (31 December 2006 – £4,351,500). The Group's investment in property comprises the cost of acquisition plus these loans advanced to the operator on which the return, inclusive of interest is charged at between 9.5%–10.5%. As at 31 December 2007 the group had no outstanding mezzanine loans and interest thereon to subsidiaries of ECL (2006 – £2,952,750).

At 31 December 2007 the Group had outstanding loans of CHF Nil (2006 – CHF 23million) 6.17% fixed interest, £nil (31 December 2006 – £3,750,000) 5.02% fixed interest and £Nil (31 December 2006 – £7,500,000) 5.98% fixed interest from Nationwide Insurance Group, which is a minority shareholder of RP&C.

27. Employees
The Company had no employees at 31 December 2007 (2006 – none).

28. Financial Commitments

	2007 CHF	2006 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.

	1 January to 26 March 2007 CHF	1 January to 31 December 2006 CHF
Operating cash flows	537,839	405,372
Investing cash flows	1,464,798	(5,536,313)
Financing cash flows	(1,316,698)	(864,687)
Total cash flows	**685,939**	**(5,995,628)**

Notes to the Consolidated Financial Statements

	1 January to 26 March 2007 CHF	1 January to 31 December 2006 CHF
Analysis of the result of discontinued operations:		
Revenue	6,811,227	25,576,281
Fair Value Gains	6,453,582	35,768,175
Expenses (net of interest income)	(6,927,977)	(22,868,209)
Profit from discontinued operations – before tax	**6,336,832**	**38,476,247**
Tax	(2,340,588)	(9,408,771)
Profit for the period from discontinued operations	**3,996,244**	**29,067,476**

The following disclosure of the assets and liabilities only relates to the discontinued operations mentioned above. There are no assets held for sale in the current year.

	Note	2007 CHF	2006 CHF
Non-current assets classified as held for sale:			
Investment property	a	–	371,848,774
Receivable from finance lease	b	–	18,801,779
Loans and receivables	c	–	17,449,877
Accrued income	d	–	17,867,338
Derivative financial instruments	e	–	1,224,991
		–	**427,192,759**
Current assets classified as held for sale:			
Receivables and prepayments		–	11,412,279
Cash		–	5,839,321
Total assets classified as held for sale:		**–**	**444,444,359**
Non-current liabilities classified as held for sale:			
Borrowings	f	–	212,052,972
Deferred Income Tax	g	–	46,163,804
			258,216,776
Current liabilities classified as held for sale:			
Borrowings	f	–	16,439,631
Trade and other payables		–	6,860,016
Accruals		–	4,284,432
Total liabilities classified as held for sale:		**–**	**285,800,855**

(a) Investment Property

	2007 CHF	2006 CHF
As at 1 January	**–**	**323,237,485**
Extension of properties	–	338,409
Net gains on fair value adjustment	–	35,300,224
Net changes in fair value adjustments due to exchange differences	–	12,972,656
As at 31 December	**–**	**371,848,774**
Fire Insurance Value	–	241,984,660

Notes to the Consolidated Financial Statements

Bank borrowings are secured on investment property as outlined in note 29(e).

Valuations of the investment properties were made as at 31 December 2006 by independent Property Consultants.

The valuation of the investment properties in the UK was conducted by Colliers CRE, UK. Based on the detailed review of relevant information, Colliers CRE concluded that capitalisation rates of between 6.0%–6.25% were appropriate under market conditions prevailing at 31 December 2006. USI has used 6.25% in preparation of the consolidated financial statements.

The valuation of the investment properties in the US was conducted by Real Estate Asset Counselling Inc, US, using the direct capitalisation of the NOI approach in their valuation. Based on the most recent transactions in the sector reviewed by REAC, the overall direct capitalisation rates ranged between 6.33% and 7.50%. USI has used a mean capitalisation rate of 6.92% in preparation of the consolidated financial statements.

The valuation of the investment properties in Switzerland was conducted by Botta Management, AG, using a discounted cash flow analysis. A discount factor and capitalisation rates of 4.5%–4.7% were used for the valuation at 31 December 2006.

Repairs of CHF 232,524 were incurred in 2006 in respect of investment properties generating rental income. These costs were incurred in respect of investment properties where the Group is responsible for structural and roof repairs. There were no repairs and maintenance costs incurred in respect of investment properties that did not generate rental income.

(b) Receivable from Finance Leases

	2007 CHF	2006 CHF
Non-current		
Finance leases – gross receivables	–	69,856,379
Unearned finance income	–	(50,909,482)
	–	**18,946,896**
Current		
Finance leases – gross receivables	–	1,716,891
Unearned finance income	–	(1,862,008)
	–	**(145,117)**
Total receivable from finance leases	**–**	**18,801,779**
Gross receivables from finance leases:		
– no later than 1 year	–	1,716,891
– later than 1 year and no later than 5 years	–	7,128,891
– later than 5 years	–	62,727,488
	–	**71,573,270**
Unearned future finance income on finance leases	–	(52,771,491)
Total receivable from finance leases	**–**	**18,801,779**
The net receivable from finance leases may be analysed as follows:		
– no later than 1 year	–	(149,370)
– later than 1 year and no later than 5 years	–	(473,098)
– later than 5 years	–	19,424,247
	–	**18,801,779**

The group has leased out a business under a licence agreement. 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. The remaining life of this licence is 31 years.

Notes to the Consolidated Financial Statements

(c) Loans and Receivables

	2007 CHF	2006 CHF
As at 1 January	**–**	**9,853,101**
Additions – Mezzanine Loan	–	6,347,055
Net Gains on fair value of Mezzanine Loan	–	467,951
Net changes in fair value adjustments due to exchange differences	–	781,770
As at 31 December	**–**	**17,449,877**

Loans consist of 100% of the issued redeemable preference shares in lessee companies. These companies lease the investment properties as referred to in note 29 (a).

The preference shares are non-voting, not entitled to a dividend, are cancelled on the termination of the leases written with the relevant lessee companies and are repayable at par. Interest income, implicit on the Loans, is received through the rental income. During the year ended 31 December 2006 CHF 1,155,671 has been deducted from rental income and included in interest receivable.

In January 2006 a subsidiary of the Company invested CHF 6,347,055 (£2.75 million) in a mezzanine loan which has been stated at fair value with any changes recognised through the income statement. The funds were used by the borrower as a part of the proceeds for the acquisition of five nursing and residential care homes in the United Kingdom. The mezzanine loan matures the earlier of January 2010 or on the sale of the care homes acquired. Interest accrues at 15% per annum, with 9% paid in cash and 6% per annum to be paid on maturity of the loan. In addition, the USI Group is entitled to 5% of the capital appreciation of the investment properties acquired over the gross acquisition cost, up to maturity of the loan. In the period to 31 December 2006 the Company recognised CHF 467,951as its proportionate share of the capital appreciation in respect of the properties. The USI Group has a second mortgage on the investment properties and a charge over the shares of the company owning the investment properties.

The fair values of loans and receivables are as follows:

	2007 CHF	2006 CHF
Preference Shares	–	12,526,705
Mezzanine Loans	–	7,054,120
	–	**19,580,825**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 9.5% for preference shares and 15% for mezzanine loans.

The effective interest rates on non-current receivables were as follows:

	2007 CHF	2006 CHF
Preference Shares	–	12.40%
Mezzanine Loans	–	15.89%

(d) Accrued Income

	2007 CHF	2006 CHF
As at 1 January	**–**	**13,124,342**
Recognition of straight-line income	–	3,430,599
Impact of exchange rates	–	1,312,397
As at 31 December	**–**	**17,867,338**

Accrued income is provided to recognise guaranteed future income over the period of the lease.

(e) Derivative Financial Instruments

	2007		2006	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Interest rate swaps – cash flow hedges	–	–	1,224,991	–

Notes to the Consolidated Financial Statements

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2006 were 94.047 million. At 31 December 2006, the fixed interest rates vary from 6.115% to 6.800%.

The interest rate swaps in respect of aggregate mortgage borrowings on the UK investment match the interest payment and principal repayment profile of the various facilities. The interest rate swaps have been classified as non current as the relevant Group companies have no automatic right to cancel the instruments.

(f) Borrowings

	2007 CHF	2006 CHF
Non-current		
Mortgages	–	143,656,463
Bonds	–	27,191,710
Other	–	40,674,799
Senior Pre-IPO Notes	–	530,000
	–	**212,052,972**
Current		
Mortgages	–	6,262,170
Other	–	8,958,751
Bank Overdraft	–	1,218,710
	–	**16,439,631**
Total borrowings	**–**	**228,492,603**

Total borrowings include secured liabilities (Mortgages, bonds and other borrowings) of CHF 203,882,083. These borrowings are principally secured by the land and buildings of the Group. At 31 December 2006 the group had subordinated borrowings of CHF 23 million which are primarily secured by a pledge of shares of various subsidiary undertakings.

The maturity of non-current is as follows:

	2007 CHF	2006 CHF
Current borrowings	–	16,439,634
Between 1 and 2 years	–	7,398,143
Between 2 and 5 years	–	68,903,486
Over 5 years	–	135,751,343
Non-current borrowings	**–**	**212,052,972**

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

	Carrying amounts		Fair values	
	2007 CHF	2006 CHF	2007 CHF	2006 CHF
Discontinued				
Mortgages	–	143,656,463	–	139,752,510
Bonds	–	27,191,710	–	29,758,595
Other	–	40,674,799	–	37,843,606
Senior Pre-IPO Notes	–	530,000	–	1,219,639
	–	**212,052,972**	**–**	**208,574,350**

The fair values are based on cash flows discounted using a rate based upon a range of borrowings rate between 3.56% and 8.50%).

The carrying amounts of short-term borrowings approximate their fair-value.

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

Notes to the Consolidated Financial Statements

	2007 CHF	2006 CHF
Pound sterling	–	164,409,083
US dollar	–	27,191,710
Swiss franc	–	36,891,815
	–	**228,492,608**

(g) 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.

	2007 CHF	2006 CHF
Deferred tax liabilities to be recovered after more than 12 months	–	46,163,804

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

	2007 CHF	2006 CHF
Beginning of the year	–	34,010,158
Income statement charge	–	9,962,098
Net changes due to exchange differences	–	2,191,548
End of the year	**–**	**46,163,804**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Business combinations CHF	Fair value gains CHF	Straight line recognition of lease income CHF	Total CHF
Deferred tax liabilities:				
Discontinued At 1 January 2006	**10,842,884**	**19,096,548**	**4,070,726**	**34,010,158**
Charged to the income statement	–	8,853,690	1,108,408	9,962,098
Net changes due to exchange differences	701,675	1,226,445	263,428	2,191,548
At 31 December 2006	**11,544,559**	**29,176,683**	**5,442,562**	**46,163,804**
At 31 December 2007	**–**	**–**	**–**	**–**

30. Subsequent Events

On 4 January 2008, the funding of the acquisition of the investment properties in Leipzig, Germany (see Note 12 and Note 23) 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 four year term. Interest is payable quarterly at the Euribor rate plus a margin of 120 bps per annum. The senior debt is securitised by first ranking and fully enforceable land charges over the property acquired.

On the same date an interest rate swap was executed for a principle sum to match that of the senior debt which fixed the interest rate payable over the 3 year term to 4.52% and provided a 100% hedge throughout its duration. The cost of arranging the financing, payable in 2008, totalled €2,422,000 and will be amortised over the term of the loan.

On 30 November 2007 the Group entered into a framework agreement for a €25,000,000 credit facility. The full amount was drawn down on 3 January 2008.

On 4 April 2008, the Group advanced €2,000,000 to RP&C for business development. The loan is repayable by 31 March 2013 and attracts interest of 6% per annum.

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)

All amounts in CHF	Basic Remuneration		Variable Remuneration		Total
	Cash	Equities/ Options	Cash	Equities/ Options	
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	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**

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):

All amounts in CHF	Shares	Share Options		
		Expiring 2008	Expiring 2009	Expiring 2010
Board of Directors (BoD)				
Dr. iur V. Lanfranconi	436,964	–	–	–
Mr. 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**	**–**	**–**	**–**

Notes to the Consolidated Financial Statements

32. Segment Information

	Note	For the year ended 31 December 2007 SEGMENT Germany CHF	UK CHF	US CHF	Switzerland* CHF	Total CHF
Revenue						
Net gain on fair value adjustments	12 17	24,421,040	–	–	–	24,421,040
Administrative expenses	7a)	(165,870)	–	–	(3,815,298)	(3,981,168)
Other expenses	7b)	(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 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	30	–	4,368,512	(236,538)	439,467	4,571,441
Profit 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

For the year ended 31 December 2006

SEGMENT

	UK CHF	US CHF	Switzerland* CHF	Switzerland* CHF	Switzerland* CHF	Total CHF
	Discontinued	Discontinued	Discontinued	Continued	Total	
Revenue	**21,505,696**	**2,881,126**	**1,189,459**	**–**	**1,189,459**	**25,576,281**
Net gain on fair value adjustments	36,648,106	820,289	(1,700,220)	–	(1,700,220)	35,768,175
Administrative expenses	(9,507,742)	(614,068)	(224,663)	(1,465,791)	(1,690,454)	(11,812,264)
Net Finance income	4,660,701	100,609	–	1,770,098	1,770,098	6,531,408
Segment result	**53,306,761**	**3,187,956**	**(735,424)**	**304,307**	**(431,117)**	**56,063,600**
Finance costs – net	(14,116,233)	(2,523,234)	(643,579)	(206,851)	(913,010)	(17,489,897)
Segment profit/(loss) before income tax	**39,190,528**	**664,722**	**(1,379,006)**	**97,456**	**(1,281,550)**	**38,573,703**
Income Taxes	(9,994,473)	–	585,702	–	585,702	(9,408,771)
Profit for the year	**29,196,055**	**664,722**	**(793,301)**	**97,456**	**(695,845)**	**29,164,932**
Attributable to:						
Equity holders of the Company						29,164,932
Minority interests						–
						29,164,932
Assets						
Segment assets	360,078,005	39,285,878	27,559,009	12,615,368	40,174,377	439,538,260
Unallocated assets						17,521,467
Total assets						**457,059,727**
Liabilities						
Segment liabilities	(217,337,844)	(27,419,823)	(17,344,946)	(18,303,227)	(35,648,173)	(280,405,840)
Unallocated liabilities						(25,087,638)
Total liabilities						**(305,495,478)**

*The Switzerland segment includes corporate costs

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Phone +41 58 792 44 00
Fax +41 58 792 44 10

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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes), pages 65 to 69, of USI Group Holdings AG for the year ended 31 December 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

P. Balkanyi

Patrick Balkanyi
Auditor in charge
Zurich, 25 April 2008

Adrian Steiner

Balance Sheet

USI Group Holding AG

	31.12.2007 CHF	31.12.2006 CHF
Assets		
Cash and cash equivalents	4,365,129	5,643,761
Receivables third parties	969	969
Prepaid expenses	16,354	29,281
Inter-company	99,133,756	–
Total current assets	**103,516,208**	**5,674,011**
Investments	4,327,978	122,498,103
Total non-current assets	**4,327,978**	**122,498,103**
Total Assets	**107,844,186**	**128,172,114**
Liabilities		
Other current liabilities		
– Shareholders	38,022	38,022
– Intercompany	–	10,091,918
Accrued expenses	102,596	479,819
Total liabilities	**140,618**	**10,609,759**
Share capital	69,385,681	74,338,282
Legal reserves	30,553,255	45,336,550
Free reserves	15,000,000	–
Accumulated deficit	(7,235,368)	(2,112,477)
– Balance carried forward from prior year	–	(674,431)
– Annual loss	(7,235,368)	(1,438,046)
Total shareholders' equity	**107,703,568**	**117,562,355**
Total Shareholders' Equity and Liabilities	**107,844,186**	**128,172,114**

Income Statement

USI Group Holding AG

1 January – 31 December	2007 CHF	2006 CHF
Other income	-	-
Other income		
Directors' fees	(82,446)	(90,000)
Professional fees	(181,500)	(411,484)
Tax consultancy	(23,134)	(12,266)
Audit fees	(101,743)	(136,274)
Listing fees	(2,227,738)	(10,280)
Insurance	(32,510)	(34,239)
Abort Costs	(2,280)	(499,370)
Management Charges	(2,691,807)	-
Formation, Capital Raising and Organisational Costs	(96,993)	-
Capital tax expenses, reclaims and rent, maintenance and general administration	(321,744)	(246,244)
EBIT	**(5,791,895)**	**(1,440,157)**
Financial expenses	(1,488,195)	(4,549)
Financial income	14,722	6,659
Loss before income tax expenses	**(7,235,368)**	**(1,438,047)**
Income tax expense	-	-
Net Loss	**(7,235,368)**	**(1,438,047)**

Notes

USI Group Holding AG

To the financial statements at 31 December 2007

Disclosures required by Swiss law:

Company information

Capital reduction and reinvestment

During 2007 a capital distribution of CHF 8.90 per share took place that reduced the share capital of USI Group Holdings AG from CHF 74,338,282 (778,004 with a nominal value of CHF 95.55 each) to CHF 67,414,047 (778,004 shares with a nominal value of CHF 86.65 each). Additionally a reinvestment of CHF 1,971,634 (22,754 shares at par value of CHF 86.65) took place with a subscription price of CHF 189.00.

Authorised Share Capital

The share capital may be increased by a maximum amount of up to CHF 20,000,000 through the issuance of up to 200,000 fully paid in registered shares with a nominal value of CHF 86.65 each.

Conditional Share Capital

The share capital may be increased in the amount of up to CHF 38,191,000 through the issuance of up to 381,910 fully paid in registered shares with a nominal value of CHF 86.65.

During 2007 a reinvestment of 22,754 shares in the amount of CHF 1,971,634 took place.

Movements on Legal Reserves

	CHF
Balance as at 1 January 2007	45,336,550
Offsetting balance of accumulated deficit carry forward with legal reserve on general meeting of shareholders on 30 May 2007	(2,112,477)
Balance after offsetting	**43,224,072**
Conversion from legal to free reserves	(15,000,000)
Increase in legal reserves from capital reinvestment	2,329,183
Balance on legal reserve after general meeting of shareholders on 30 May 2007	**30,553,255**

Notes

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.

	31.12.07	31.12.06
Dr. iur V Lanfranconi	54.57%	0.22%
USI Limited	6.06%	59.39%
USI USA II	5.07%	5.78%
Esquire Consolidated Limited	7.11%	7.32%
Equinox USI Limited	4.73%	5.12%
European Asset Value	4.88%	5.02%

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.

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.

Proposal of the Board of Directors for appropriation of accumulated deficit at 31 December 2007

	CHF
Accumulated deficit	
Accumulated deficit at 1 January 2007	(2,112,477)
Offsetting balance of accumulated deficit carry forward with legal reserve on general meeting of shareholders on 30 May 2007	2,112,477
Balance after general meeting of shareholders on 30 May 2007	**-**
Net loss 2007	(7,235,368)
Accumulated deficit	(7,235,368)
Offsetting balance of accumulated deficit carry forward with legal reserve	7,235,368
Accumulated deficit carried forward	**-**

Disclosure of compensation and participations of the Board of Directors and Group Management as required by Art. 663b and Art. 663c, Swiss Code of Obligations

See Note 31

Other Information (Audited)

for the year ended 31 December 2007

Property Details

Name, address	Owner[1]	Ownership status[2]	Approximate Year of construction	Year of renovation	% of leased usable space	As % of Investment Properties Portfolio	Gross lettable area M[3]
Germany Office Building – Behördenzrntrum, Free State of Saxony, Schongauerstrassse 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 14,818,846*)	100.00%

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

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

*Exchange rate based on EUR: CHF = 0.6032.

Independent Appraisal Firms and Valuation Methods

The USI Group has commissioned Jones Lang LaSalle GmbH, Wilhelm-Leuschner-Strasse 78, D-60329 Frankfurt am Main, Germany for the purpose of estimating the fair value of the real estate holdings owned by the USI Group.

Valuation method of Jones Lang LaSalle ('JLL')

The valuation is carried out on the basis of Market Value as defined in the 'Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Manual. This is incorporated into the Jones Lang LaSalle 'General Principles Adopted in the Preparation of Valuations and Reports', and is defined as follows:

> 'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

For the purposes of the exercise, JLL adopted a Discounted Cash Flow (DCF) method to calculate market value, assuming 20-year calculation period with a start date/valuation date of 1 October 2007. Their valuation methodology is as follows:

Valuation Approach

Discounted Cash Flow Model

The Discounted Cash Flow approach is strongly linked to the dynamic investment calculation methods and is used internationally to estimate 'Market Value' according to the definition of the Red Book of the Institution of Chartered Surveyors (RICS).

The Discounted Cash Flow method is used to determine the capital value on the valuation date using the prescribed interest structure and varying payment flows staggered according to the time at which they are generated. In this process, following identification of all factors related to value, the future, partly projected cash flows are calculated for the valuation period. The anticipated income and costs are discounted to the valuation date (using a compound interest calculation).

At the end of the valuation period, the capital value of the remaining cash flows is calculated and this is also discounted to the valuation date as cash flow. Applying a yield that reflects the risk associated with the property investment reveals the capital value of the investment.

We have applied a discount rate of 4.9% for discounting of the cash flows. This assumption is based on the current capital market interest level and the high creditworthiness of the tenant The Free State of Saxony, with a very low default risk in combination with a long-term rental contract.

Under the assumption of a comparable creditworthiness for the German Federal Government and the Free State of Saxony, we have applied a day-to-day updated interest rate using exchange listed federal securities as the basis. The yields for long-term assets published by the Deutsche Bundesbank as at the valuation date were listed between 4.19% and 4.49%. The appraisal of a risk premium of about 50 basis points for investment in a property results in a conservative discount rate of 4.9%.

Other Information (Audited)

Cash Flow of the Valuation Period

The future anticipated 'Base Rental Revenue' from the valuation date onwards serves as the basis. These figures are derived from the contractually agreed rental income, as well as from the projected income from re-letting rental units that are vacated during the valuation period.

Rental losses (due to vacancy or tenant change) were deducted from the 'Base Rental Revenue' in order to achieve the 'Potential Rental Income'.

The 'Net Operating Income' is calculated by deducting the 'Non-recoverable Expenses', which remain with the landlord. After a further deduction of 'Leasing and Capital Costs', the cash flow before interest and tax is produced. These are composed of the following:

Non-Recoverable Expenses

- Maintenance costs

Leasing and Capital Costs

- Tenant improvements
- Agent fees
- Rent-free periods

As a general rule, the cash flow is assessed monthly as this conforms to the timing of rental payments which normally represent the largest periodic cash flows. Subsequently, the cash flows calculated across the valuation period are discounted to the valuation date monthly in advance using the discount rate.

The Capitalised Terminal Value at the End of the Valuation Period

As is generally the case in the Discounted Cash Flow approach, the capitalisation of the net operating income is performed at the end of the valuation period. Assuming a net to net yield, the capitalised terminal value corresponds with a projected resale at the end of the valuation period.

In order to calculate the capitalised terminal value at the end of valuation period, the stabilised net operating income is capitalised by the multiplier. The calculated Net Present Value is entered in the cash flow as the final payment of the valuation period and is also discounted to the valuation date using the discount rate.

A capitalisation rate of 5.75% was adopted in the present valuation. In practical terms, the capitalisation rate is considered as the return for the investment after expiry of the period under consideration and is comparable with the present Net Initial Yield designated as at the valuation date. Since the chosen period under consideration is set at 20 years, it is difficult to make a fore-cast; thus, a premium is added to the yield as at the valuation date. Under the assumption of a property market with stable development, we have used a premium of 100 basis points on the actual customary market yield to depict the capitalisation in year 20.

The sum of all discounted cash flows leads to the gross capital value. The outcome is the value of the property that a potential investor is prepared to pay, considering all economic aspects, under the assumption of the parameters applied in the valuation, in order to achieve a market interest rate (accounting for risks/opportunities) applicable at the time.

Deduction of ancillary purchase costs from the gross capital value leads to the net capital value. This amount remains with the seller following the sale of the valued property and represents the 'Market Value'.

Non Recoverable Costs

General

In the scope of this valuation (Market Value as well as Vacant Possession Value) the estimation of non-recoverable ancillary costs was made using experience values derived from comparable properties. The cost estimations used were obtained from the evaluation of available data for properties valued, sold and managed by Jones Lang LaSalle.

Repairs and Maintenance

Based on an analysis of the current rental contract, only costs for repairs, maintenance and reinstatement of roof and framework ('Dach und Fach') are borne by the landlord.

In this context the tenant is responsible for basic repairs, maintenance as well as the reinstatement of the interior of the rented spaces, i.e. facilities, installations and fittings.

After the contract has expired and is either extended or successive renting takes place, a standard double net rental contract is assumed. The cost approaches applied for repairs and maintenance correspond to standard values for comparable properties.

In our valuation we assumed an initial annual amount of EUR 4.50/sqm lettable area for ongoing maintenance including a reimbursement fund for structural repairs. Due to prognosticated inflation and the increasing age of the property the annual amount per sqm rises up to about 6.69 in year 20.

Management Costs

According to paragraph §5 of the lease contract management costs are passed onto the tenant.

Other costs

No other costs have to be borne by the landlord and therefore we have not calculated any other costs in our valuation.

Conclusion

In total we deducted non-recoverable expenses at EUR 4.50/sqm p.a. for the gross lettable area from the annual rental income for the first year as the costs remain with the landlord. This totals to an annual amount of non recoverable expenses of EUR 228,177 p.a.

Capital Expenditures

We have been provided with the Technical Due Diligence Report by Jones Lang LaSalle Management Services.

According to the results of our inspection of the property and verbal information by our technical in-house partner the properties are in a good and well maintained state of repair. The general visual appearance is good to very good in almost all areas. The property exhibits minor defects which are within normal limits. No major defects or any other repair backlogs have been identified.
As a result, we have not calculated any capital expenditures in our valuation.

Other Information (Audited)

Market Leasing Assumptions

Renewal Probability

After the rental period has expired the probability of re-letting is estimated on the basis of tenant, property and extension options. In the case of a termination of contract by the tenant (break option), the date of this break option is deemed to be the end of the rental contract.

As the tenant has a right to prolong the lease after expiry in 2020 and the property has been purpose built for the Free State of Saxony, renewal probability is estimated to be high. Under this assumption the re-letting probability in the Market Value calculation has been fixed at 90% for the current tenant.

Costs incurred when the tenant vacates the property were thus applied within the cash flow at a rate of 10% at the end of the contract. Such expenses include rent losses and re-letting costs such as rent-free periods, tenant improvements and agent fees.

For calculating the VPV scenario we have assumed a renewal probability of 75% after expiry of the rent contracts.

Voids

The period of vacancy before re-letting is dependent on the location, building quality, nature of the building and demand. For the subject properties, we assumed different vacancy periods.

Depending on use class, total size of 50,707 sqm and location of the rental units within the buildings we have calculated void periods between 6 to 50 months after lease expiry.

On account of the fact that marketing to identify new tenants can commence as soon as the existing tenant has submitted notice, the individual notice period for the tenant is taken into account (i.e. deducted) when determining the void period.

Tenant Improvements

Tenant improvements are costs for fixtures and building works incurred when a new rental contract is signed. These costs are assumed by the landlord in the process of contractual negotiations. As the agreement in the rental contract is that the rental area is to be handed back to the owner renovated we have taken tenant improvements of EUR 100/sqm into account in our valuation.

In the calculation of the vacant possession value, we have also applied tenant improvements of EUR 100/sqm in order to assure the letting of the hypothetical vacant areas.

Agent's Fee

The calculated letting fees include agent fees borne by the owner, amounting to two months rent. This fee is incorporated into the estimated cash flow for the rental unit and is calculated as a lump sum for the area at the time the new rental contract is signed. Agent fees, which are borne by the tenant, are not included.

Contractual Terms
Rental terms are estimated by drawing upon standard rental contracts, giving consideration to building use and the current real estate market. A contractual period of five years is assumed for standard office contracts within the MV and VPV calculations.

Investment Yields
The yields applied reflect the individual location quality (macro and micro location) of the property, building structure, lease term, covenant strength and the current market situation for prime real estate investments.

In the current investment markets, covenant strength and lease term play a key role in the decision on purchase of such properties, other factors play a minor role for acquisition prices. We have accounted for these factors through adjustments of the yield applied. Additionally, we had strong focus on the recent developments regarding the financing base rate by European Central Bank (ECB) and bonds with comparable structure as a long term lease with a AAA equivalent tenant such as Free State of Saxony.

Rental Growth Forecasts
We took an average annual inflation of 2.00% into account.

In our valuation we have adjusted the rental income (in accordance with rental contract regulations) and non-recoverable costs in relation to the above mentioned prognosis.

Market Value
The valuation is carried out on the basis of Market Value as defined in the 'Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Manual. This is incorporated into the Jones Lang LaSalle 'General Principles Adopted in the Preparation of Valuations and Reports' which is attached.

The 'Market Value' is an appraisal of the price for which a property transaction would take place on the appointed valuation date and may be defined as:

> 'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

For the purposes of this exercise, we adopted a Discounted Cash Flow (DCF) method to calculate market value, assuming a 20-year calculation period with a start date/valuation date of 1 October 2007.

With regard to the above, JLL are of the opinion that the Market Value of the subject property as at 1 October 2007 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

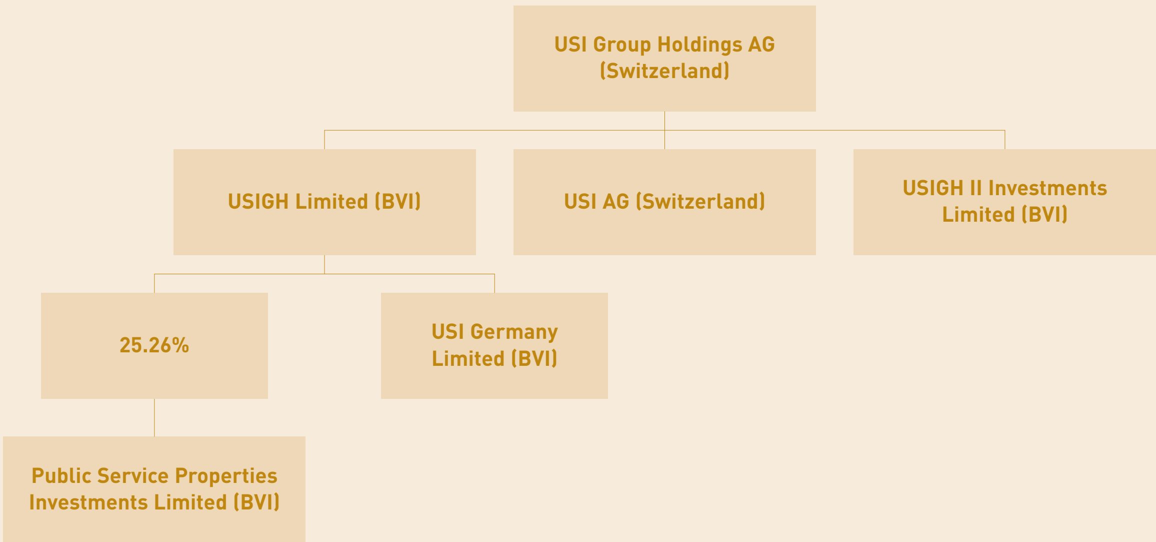
I Corporate Governance

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 SWX Swiss Exchange in force.

1 Group Structure and Shareholders

1.1 Group Structure

At 31 December 2007 the structure of the group (the 'USI Group') was as follows (for the internal organizational structure, refer to section 3.3 and section 4):



In February 2007 the shares of United Properties Holdings Inc were transferred, at fair value, from USI AG to Public Service Properties Investments Limited, which in turn conducted an initial public offering of its shares on the Alternative Investment Market (AIM) of the London Stock Exchange in March 2007. At the same time, the shares of USI AG were transferred, at fair value, from Public Service Properties Investment Limited to USI Group Holdings AG.

As at the date hereof, USIGH Limited held 25.16% of Public Service Properties Investments Limited. At 31 December 2007 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
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 2007 the market value of this participation was £18’321’524.

Corporate Governance Report

1.2 Significant shareholders
At 31 December 2007 the Company had the following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 86.65	Percentage ownership of total equity capital and voting rights
Dr Victor Lanfranconi and Mrs Beatrix Lanfranconi Spaeti [1]	436,964	54.57%
RP&C International (Guernsey) Limited [2] of PO Box 122, Helvetia Court, South Esplanade, St Peter Port, Guernsey GY1 4EE, Channel Islands	50,223	6.27%
Esquire Consolidated Limited [3]	56,948	7.11%
Equinox USI Limited [4] c/o Herndon Plant Oakley Limited, One Shoreline Plaza, 800 North Shoreline, Suite 2200, South Tower, Corpus Christi, Texas 78401, USA	37,868	4.73%
USI-USA I [5] 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	31,772	3.97%
USI-USA II [6] 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	40,595	5.07%
European Asset Value Fund [7] 1 Boulevard Royal, L2449, Luxembourg	34,266	4.28%
Other existing shareholders	112,122	14%
Total	800'758	100%

[1] Formerly held indirectly through Monkwell Investments Limited, Nerine Chambers, Road Town, Tortola, BVI, as nominee, as a group holding together with the shareholdings of RP&C International (Guernsey) Limited. This arrangement was dissolved in December 2007.

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

[3] 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. P. Morgan (Suisse) S.A.

[4] Held through Monkwell Investments Limited. Candies Family Investment LLC owns 40% of Equinox USI Limited.

[5] 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.

[6] 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.

[7] Reduced to 29,694 Shares (3.71%) as at 16 April 2008. Managed by, and held through, Asset Value Investors Limited.

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 69'385'680.70, divided into 800'758 registered shares with a par value of CHF 86.65, fully paid in.

The conditional capital for management and advisors amounts to CHF 3'971'082.85 and the conditional capital for bondholders and other creditors amounts to CHF 29'121'418.65.

The authorized capital amounts to CHF 14'129'322.30.

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 14'129'322.30 until 22 May 2008 through the issuance of up to 163'062 fully paid in additional registered shares with a nominal value of CHF 86.65 each. The board of directors will propose to extend this authorization until 27 May 2010 at the next Annual General Meeting of the Company. 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

Corporate Governance Report

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 3'971'082.85 through the issuance of up to 45'829 registered shares with a nominal value of CHF 86.65 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 Articles.

Furthermore, pursuant to Article 3b of the Articles the share capital may be increased conditionally by a maximum amount of CHF 29'121'418.65 through the issuance of up to 336'081 registered shares with a nominal value of CHF 86.65 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 options 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 30 June 2005 the general meeting of shareholders resolved to increase the share capital of the Company by CHF 73'982'000 from CHF 2'400'000 CHF 76'382'000, divided into 763'820 registered shares with a par value of CHF 100 each by way of contribution in kind.

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.

2.4 Shares and participation certificates

As at 31 December 2007, the Company has 800'758 registered shares with a par value of CHF 86.65, 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.

Corporate Governance Report

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 may be exercised into one share at a price of CHF 152.20 per share and expires on 31 October 2008.

Subject to adjustment under their terms, 84'634 registered shares with a nominal value of CHF 86.65 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 86.65 each of the Company would have to be issued under the warrant instrument if all warrantholders fully exercised their 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	2008
William W. Vanderfelt	GB	member	2005	2010
Dr Robert Bider	CH	member	2005	2008
Dr Volkert Klaucke	D	member	2005	2008
Executive members				
Dr iur. Victor Lanfranconi	CH	chairman	2005	2008
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 (66), 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 owned Etzelgut for more than ten years and has served on the boards of directors of healthcare facilities in Switzerland and Germany. Dr Lanfranconi studied law at the University of Zurich and the University of Basel.

Dr Doraiswamy Srinivas (57), Director of Investor Relations, is Chief Operating Officer of RP&C and is a director of RP&C and related companies. He has advised the USI Group since 1989 and has been a director of various USI Group subsidiaries for more than 10 years. Dr Srinivas previously served as managing director, corporate finance at SBCI Swiss Bank Corporation Investment Bank in New York where he was responsible for private placements and structured finance in North America. He subsequently held similar positions at Leu Securities and Guinness Mahon Capital Markets (now Investec) in London. Dr Srinivas attended the University of St. Gallen and the Columbia Business School. He holds a doctorate in finance and economics.

Mr David Quint (57), 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.

Corporate Governance Report

Mr Armin Hilti (62), was Chief Financial Officer and member of the management of Scana Lebensmittel AG, Regensdorf (Switzerland), a former subsidiary of Regedo Holdings 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 (64), 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 (60), has over 30 years of experience in the health care industry. He holds a PhD in Technical Sciences and a Masters in Industrial Management (MIM) from the Federal Institute of Technology, Zurich. He started his career in the management sector of the University Hospital, Zurich and became head of the consulting department of the Swiss Hospital Institute, Aarau. Thereafter he joined the Hirslanden Group in 1985 as the managing director of Clinic Hirslanden. In 1990 he started a national expansion strategy and became CEO of the Hirslanden Group which is now comprised of 13 private hospitals. He was elected as a board member of Hirslanden in June 2001. 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 (64), 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 (hereinafter the 'Regulations'), the Board acts, in principle, as a collective body. Its members may not act alone on behalf of the Company and may not give instructions on their own, except where the Articles, the Regulations or a decision of the Board otherwise permit.

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

The Chairman has the following duties:

- chairing meetings of the Board and general meetings;
- determining the agenda for meetings of the Board except in cases where proposals are made by other members of the Board;
- representation of the Board to the public, to public authorities and to the shareholders;
- supervision of the execution of measures which have the approval of the Board;
- preparation of amendments to the Articles, conduct of the voting 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;

Corporate Governance Report

- 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 '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, Mr Hilti and Dr Srinivas. Dr Klaucke will be proposed as the chairman at the next meeting of the Audit Committee.

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 Mr Vanderfelt, Dr Bider and Dr Lanfranconi. Dr Lanfranconi will be proposed as the chairman at the next meeting of the Nomination and Compensation Committee.

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;
- 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;

Corporate Governance Report

- 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 three meetings were held. At all of these meetings, senior officers of RP&C (other than executive directors) were present at the Chairman's invitation, while external consultants were present at two meetings.

3.3.3.2 Audit Committee
In the year under review one meeting was held. The usual length of the meetings is 1-2 hours. At this meeting, senior officers of RP&C (other than executive directors) were present at the committee chairman's invitation.

3.3.3.3 Nomination and Compensation Committee
The revised Management Agreement was considered and approved by the full Board at a board meeting held on 30 May 2007. There were no meetings of the Nomination and Compensation Committee during the year.

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;

- 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;

Corporate Governance Report

  - 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 generally provide each member of the Board with a copy of management accounts prior to each board meeting. In addition, management provide 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 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 International Inc, New York ('RP&C' or the 'Manager'), 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 (47), 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 (41), 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 section 3.1 and 4.1).

4.3 Management contract

According to the Management Agreement between the Company and RP&C, the Company has appointed RP&C to be the USI Group's exclusive manager, adviser and administrator. RP&C is 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.

Corporate Governance Report

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 form 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.

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;

Corporate Governance Report

- 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 and the provision of a car in the amount of CHF 235,899 for the year ended 31 December 2007.

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 (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 at the rate 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 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 2007.

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 2007. 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.

Corporate Governance Report

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 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 a 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 the shareholder.

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 10–15 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

PricewaterhousCoopers AG, Zürich, 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 2007 by the annual general meeting held on 30 May 2007.

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 27 May 2008 to re-elect PricewaterhouseCoopers AG as statutory auditors and as group auditors for the 2008 financial year. In the case of a re-election of PricewaterhouseCoopers AG for the 2008 financial period, the responsible lead engagement partner for the auditing mandate will be the same as for the 2007 financial year.

8.2 Auditing fees

The total fees for auditing the 2007 consolidated financial statements and all group companies are estimated to be CHF 110,000, of which CHF 12,000 has been invoiced at the date of this report.

8.3 Additional fees

Additional fees of approximately CHF 50,000 were charged by PricewaterhouseCoopers AG during 2007 for the audit of the financial statements for the six month period ended 30 June 2007, and 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 2007 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 SWX Swiss Exchange's Listing Rules and the Additional Rules for the Listing of Real Estate Companies.

Corporate Governance Report

Investor Relations

Dr D. Srinivas
Phone: +44 (0)20 7766 7020
E-mail: info@usigroupholdings.ch

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

SWX Swiss Exchange Symbol: USIN
Security Number: 227101
ISIN: CH0002271010

Notes

Notes

USI Group Holdings AG
Bahnhofstrasse 106
Postfach 6781
8023 Zürich, Switzerland

T: +41 44 212 4004
F: +41 44 211 4638

www.usigroupholdings.ch

Designed and produced by CHP Design, London