USI Group Holdings AG

Annual Report 2006

USI®

Contents

Key Figures

for the year ended 31 December 2006

KEY FIGURES FROM DISCONTINUED OPERATIONS

Key financial figures	Unit	2006	2005
Rental income	CHF 1,000	25,576	27,378
Net changes in fair value adjustment on investment property	CHF 1,000	35,300	30,137
Profit from discontinued operations after tax	CHF 1,000	29,067	23,802
Key figures from combined operations			

KEY FIGURES FROM CONTINUED & DISCONTINUED OPERATIONS

Key financial figures	Unit	2006	2005
Net income	CHF 1,000	27,164	23,212
Total assets	CHF 1,000	457,059	388,903
Shareholders' equity	CHF 1,000	152,956	115,978

KEY PORTFOLIO FIGURES

Key financial figures	Unit	2006	2005
Number of investment properties	Number	178	178
Investment properties (IAS40)	CHF 1,000	371,849	323,237
Leased usable space	%	100	100

PER SHARE FIGURES

Key financial figures	Unit	2006	2005
Weighted average number of shares	Number	769,338	719,996
Earnings per share (EPS)	CHF	35.31	32.24
Net asset value per share	CHF	196.60	151.84
Nominal value reduction per share	CHF	8.90[1]	4.45
Share price high	CHF	212.02	495.00[2]
Share price low	CHF	150.00	150.00
Share price end of period	CHF	175.00	199.70

[1] Proposal to the Annual General Meeting on 30 May 2007.

[2] The highest share price since the reverse acquisition on 30 June 2005 was CHF 220.00 per share.

Directors and Advisors

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

AUDITORS
PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland

COMPANY SECRETARY
Dr Doraiswamy Srinivas

MANAGER
RP&C International
31a St. James's Square
London SW1Y 4JR
United Kingdom

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

SOLICITORS
Bär & Karrer
Brandschenkestrasse 90
CH 8027 Zurich
Switzerland

REGISTERED OFFICE
Bahnhofstrasse 106
Postfach 6781
8023 Zurich
Switzerland

REGISTERED NUMBER
CH-020.3.922.903-6

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Chairman's Statement

for the year ended 31 December 2006

The Company is pleased to report its financial results for the year ended 31 December 2006. These results reflect the significant transaction completed on 26 March 2007 whereby the Company reduced the holding in its subsidiary, Public Service Properties Investments Limited ("PSPI") from 100% to 25%. PSPI held all of the investment properties of the Company's group and, the results for 2006 reflect Net Income from discontinuing operations. The Company's profit for the year is stated at CHF 27.2 million compared to CHF 23.2 million for 2005, representing an excellent result for our shareholders.

Gross assets at 31 December 2006 were CHF 457 million compared to CHF 388 million at 31 December 2005. Shareholders funds were CHF 153.0 million compared to CHF 116.0 million at 31 December 2005.

Following the reduction of its investment in PSPI, the Company's balance sheet will reflect cash proceeds of approximately CHF 93 million and its investment in PSPI at an initial fair value of approximately CHF60 million. The Company intends to utilise the majority of the cash proceeds from the sale to invest in property assets leased directly to governmental agencies in Europe. USI intends to maintain its interest in PSPI which is predominantly invested in properties in the healthcare sector. Under the terms of sale, the Company is not permitted to sell any shares in PSPI before 26 March 2008.

PSPI is now listed on the AIM market of the London Stock Exchange and the Company's balance sheet will reflect the market price of its PSPI shares from time to time.

USI Group Holdings AG

Lanfranconi

Dr iur V. Lanfranconi (Chairman)
Approved by the board: 29 March 2007

Directors' Report

for the year ended 31 December 2006

The directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2006.

PRINCIPAL ACTIVITY

The Company's principal activity is that of an investment holding company. The consolidated income statement is set out on page 6. 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 2006, 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 2006 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 opposite:

DIRECTORS	**31 Dec 2006**	**31 Dec 2005**
Dr. iur V. Lanfranconi	417,496	407,170
Mr Robert Bider	Nil	Nil
Mr Armin Hilti	Nil	2,288
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 47,986 (2005 – 46,813) 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 USI Limited, a company incorporated in the British Virgin Islands. Dr Lanfranconi also holds his shares through USI Limited.

By order of the board

Lanfranconi

Dr iur V. Lanfranconi (Chairman)
Date: 29 March 2007

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, consolidate cash flow statement, consolidate statement of changes in shareholders' equity and notes to the consolidated financial statements), pages 6–46 and 52–54, of USI Group Holdings AG for the year ended 31 December 2006.

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), article 13 of the Additional Rules for the Listing of Real Estate Companies of the Swiss Exchange (SWX) and comply with Swiss law.

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

PricewaterhouseCoopers AG

P. Balkanyi

Patrick Balkanyi
Auditor in charge
Zurich, 29 March 2007

Adrian Steiner

Consolidated Income Statement

for the year ended 31 December 2006

	Note	2006 CHF	2005 CHF
Revenue from continued operations		**-**	**-**
Net loss from fair value adjustment on option	17	(237,477)	-
Administrative expenses	7	(1,465,791)	(715,311)
Interest income		6,658	-
Operating loss from continued operations		**(1,696,610)**	**(715,311)**
Finance costs	8	(206,851)	(87,988)
Loss before income tax from continued operations		**(1,903,461)**	**(803,299)**
Income tax expense	21	-	213,404
Net Loss from continued operations		**(1,903,461)**	**(589,895)**
Net Income from discontinued operations	**30**	**29,067,476**	**23,801,958**
Profit for the year		**27,164,015**	**23,212,063**
Attributable to:			
Equity holders of the Company		27,164,015	23,212,063
Basic earnings per share			
Continued operations deficit per share (CHF per share)	9	(2.47)	(0.82)
Discontinued operations earnings per share (CHF per share)	9	37.78	33.06
Total earnings per share (CHF per share)	**9**	**35.31**	**32.24**
Diluted earnings per share			
Continued operations diluted deficit per share (CHF per share) (anti dilutive effect)	9	n/a	n/a
Discontinued operations diluted earnings per share (CHF per share)	9	34.85	29.09
Total diluted earnings per share (CHF per share)	9	32.60	28.37

The notes on pages 16 to 67 form part of these financial statements.

Consolidated Balance Sheet

for the year ended 31 December 2006

	Note	2006 CHF	2005 CHF
ASSETS			
Non-current assets			
Investment property	11	-	323,237,485
Receivable from finance lease	12	-	17,143,980
Loans and receivables	13	-	9,853,101
Accrued income	14	-	13,124,342
		-	**363,358,908**
Current assets			
Receivables and prepayments	16	6,970,951	9,316,030
Cash		5,644,417	15,679,834
Derivative financial instruments	17	-	548,212
Total current assets relating to continued operations		**12,615,368**	**25,544,076**
Total assets relating to discontinued operations	**30**	**444,444,359**	**-**
Total assets		**457,059,727**	**388,902,984**
EQUITY			
Capital and reserves			
Share Capital	18	74,338,282	76,382,000
Share Premium	18	1,076,844	-
Cash flow hedging reserve	17	-	(2,420,044)
Translation reserve		9,509,008	2,373,980
Retained Earnings		66,806,520	39,642,505
Total equity relating to continued operations		**151,730,654**	**115,978,441**
Total equity relating to discontinued operations		**1,224,991**	**-**
Total equity		**152,955,645**	**115,978,441**

LIABILITIES	Note	2006 CHF	2005 CHF
Non-current liabilities			
Borrowings	19	14,113,049	197,386,773
Derivative financial instruments	17	377,377	2,968,256
Deferred taxation	20	-	34,010,158
		14,490,426	**234,365,187**
Current liabilities			
Borrowings	19		34,774,567
Trade and other payables	22	3,289,235	89,107
Current income tax liabilities			188,554
Accruals	23	523,566	3,507,128
		3,812,801	**38,559,356**
Total liabilities relating to continued operations		**18,303,227**	**272,924,543**
Total liabilities relating to discontinued operations	**30**	**285,800,855**	**-**
Total liabilities		**304,104,082**	**272,924,543**
Total equity and liabilities		**457,059,727**	**388,902,984**

The consolidated financial statements on pages 9 to 67 were approved by the board of directors on 29 March 2007 and were signed on its behalf by: Dr. iur V. Lanfranconi, Chairman and Mr. Armin Hilti, Director.

The notes on pages 16 to 67 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 CHF	2005 CHF
Cash flow from operating activities			
Cash generated from operations	24	12,744,305	12,412,823
Interest paid		(15,081,966)	(17,176,796)
Tax paid		-	(1,448,726)
Net cash used by operating activities		**(2,337,661)**	**(6,212,699)**
Cash flow from investing activities			
Business Combination	26	-	(29,512,666)
Purchase of investment property	30 a	(338,409)	(772,061)
Cash paid for loans and receivables	30 c	(6,347,055)	-
Interest received		1,155,809	1,837,304
Net cash used in investing activities		**(5,529,655)**	**(28,447,423)**
Cash flow from financing activities			
Proceeds from borrowings		35,710,970	51,529,773
Repayments of borrowings		(29,750,974)	(33,648,863)
Conversion of debt into equity		-	10,926,749
Capital increases	18	2,538,936	4,900,000
New issue costs	18	(106,811)	(2,765,376)
Par value capital reduction	18	(3,398,999)	-
Net cash (used) / generated by financing activities		**4,993,122**	**30,942,283**
Decrease in cash and cash equivalents		**(2,874,194)**	**(3,717,839)**
Movement in cash and cash equivalents			
At start of year		15,679,834	18,891,719
Decrease		(2,874,194)	(3,717,839)
Foreign currency translation adjustments		(1,321,902)	505,954
At end of year		**11,483,738**	**15,679,834**

	Note	2006 CHF	2005 CHF
Decrease in cash and cash equivalents of discontinued operations	30	(5,995,628)	(6,240,822)
Foreign currency translation adjustments		(1,321,902)	505,954
Cash and cash equivalents at the beginning of the year of discontinued operations		13,156,851	18,891,719
Cash and cash equivalents at the end of the year of discontinued operations		**5,839,321**	**13,156,851**
Increase / (decrease) in cash and cash equivalents of continued operations		3,121,434	2,522,983
Cash and cash equivalents at the beginning of the year of continued operations		2,522,983	-
Cash and cash equivalents at the end of the year of continued operations		**5,644,417**	**2,522,983**

The notes on pages 16 to 67 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2006

		Attributable to equity holders of the Company						
	Note	Share capital CHF	Share premium CHF	Translation reserve CHF	Retained earnings CHF	Total CHF	Cash flow hedging reserve CHF	Total Equity CHF
Balance as of 1 January 2005		**28,678**	**46,130,684**	**655,601**	**28,127,022**	**74,941,985**	**(110,325)**	**74,831,660**
Cash flow hedges - net		-	-	-	-	-	(2,309,719)	(2,309,719)
Foreign currency translation		-	-	1,718,379	-	1,718,379	-	1,718,379
Net income/(expense) recognised directly in equity		28,678	46,130,684	2,373,980	28,127,022	76,660,364	(2,420,044)	74,240,320
Profit for the year		-	-	-	23,212,063	23,212,063	-	23,212,063
Total recognised income for 2005		28,678	46,130,684	2,373,980	51,339,085	99,872,427	(2,420,044)	97,452,383
Issue of share capital (USI)	18	36,215	25,313,465	-	-	25,349,680	-	25,349,680
Capital raising fees (USI)	18	-	(2,765,376)	-	-	(2,765,376)	-	(2,765,376)
Reverse acquisition	3	(64,893)	(68,678,773)	-	(8,264,089)	(77,007,755)	-	(77,007,755)
Issue of share capital (Regedo)	18	73,982,000	-	-	-	73,982,000	-	73,982,000
Existing Shares (Regedo)		2,400,000	-			2,400,000		2,400,000
New Shares issued in lieu of dividends		-	-	-	(3,432,491)	(3,432,491)	-	(3,432,491)
Balance as of 31 December 2005		**76,382,000**	**-**	**2,373,980**	**39,642,505**	**118,398,485**	**(2,420,044)**	**115,978,441**

	Note	Attributable to equity holders of the Company						
		Share capital CHF	**Share premium CHF**	**Translation reserve CHF**	**Retained earnings CHF**	**Total CHF**	**Cash flow hedging reserve CHF**	**Total Equity CHF**
Balance as of 1 January 2006		**76,382,000**	**-**	**2,373,980**	**39,642,505**	**118,398,485**	**(2,420,044)**	**115,978,441**
Cash flow hedges - net		-	-	-	-	-	3,645,035	3,645,035
Foreign currency translation		-	-	7,135,028	-	7,135,028	-	7,135,028
Net income/(expense) recognised directly in equity		-	-	7,135,028	-	7,135,028	3,645,035	10,780,063
Profit for the year		-	-	-	27,164,015	27,164,015	-	27,164,015
Total recognised income for 2006		-	-	7,135,028	27,164,015	34,099,043	3,645,035	37,944,078
Par value capital reduction		(3,398,999)	-	-	-	(3,398,999)	-	(3,398,999)
Issue of new shares		1,355,281	1,183,655	-	-	2,538,936	-	2,538,936
New issue costs		-	(106,811)	-	-	(106,811)	-	(106,811)
Balance as of 31 December 2006		**74,338,282**	**1,076,844**	**9,509,008**	**66,806,520**	**151,730,654**	**1,224,991**	**152,955,645**

The notes on pages 16 to 67 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

1. GENERAL INFORMATION

USI Group Holdings AG, domiciled in Switzerland (registered office at Bahnhofstrasse 106, CH-8023, Zürich, Switzerland), is the ultimate parent company of the USI Group. USI Group Holdings AG and its international subsidiaries (together the Group), is an investment property Group with a portfolio in the UK, the USA and Continental Europe. It is principally involved in leasing out real estate where the rental income is primarily generated directly or indirectly from governmental sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB) and comply with the requirements of the 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 2006 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 2005.

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.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

Amendment to IAS 19

'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

Amendment to IAS 21

Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

Amendment to IAS 39

Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;

Amendment to IAS 39
'The Fair Value Option', effective for periods on or after 1 January 2006. This amendment has been applied in the treatment of a mezzanine loan in the year.

Amendment to IAS 39 and IFRS 4
Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

IFRS 6
'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;

IFRIC 4
'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;

IFRIC 5
'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and

IFRIC 6
'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

IFRIC 7
'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;

IFRIC 8
'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Group's operations;

IFRIC 9
'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management is currently assessing the impact of IFRIC 9 on the Group's operations.

IFRIC 10
'Interim Financial Reporting and Impairment' effective for periods beginning on or after 1 November 2006. The Group will apply IFRIC 10 from January 1 2007; however it is not expected to have an impact on the Groups accounts.

IFRIC 11
– Group and treasury share transactions, effective for periods beginning on or after 1 March 2007. This will not be applicable to the Group.

IFRIC 12
– Service Concession arrangements – effective for periods beginning on or after 1 January 2008.

IFRS 7
'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007.

IFRS 8
'Operating Segments'. Because this standard was only published on 30 November 2006 and is only applicable on 1 January 2009, the Group has not undergone a careful analysis at present and as such no final assessment of impact can presently be made.

The application of these standards is not expected to have any material effect on the Group's financial statements in the period of initial application except for IFRS 7. The Group assessed the impact of IFRS

Notes to the Consolidated Financial Statements

7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk, detailed liquidity risk analysis and the capital disclosures required by the amendment of IAS 1.

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. A geographical segment is one that is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

Notes to the Consolidated Financial Statements

2.6 Leases

A group company is the lessor for a business licences (as described in note 12). After revisiting the accounting treatment the directors have determined that these should be recognised as finance leases as opposed to intangible assets.

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. 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 5.c

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-evaluates the designation at every reporting date.

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

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

The adoption of the Amendment to IAS 39, Amendment to "The fair value option" for annual periods beginning on or after January 1, 2006 did not lead to any changes to 2005 comparatives. A financial instrument acquired in 2006 has been designated as fair value through profit and loss, in accordance with the documented risk management strategy.

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.

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

Notes to the Consolidated Financial Statements

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 Receivables

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.

2.14 Costs of issuing new shares

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.

2.15 Dividends

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

2.16 Borrowings

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

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

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

2.17 Deferred Income Tax

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

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

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

2.18 Provisions

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

2.19 Revenue recognition

Revenue consists of minimum lease rentals payable over the terms of the operating leases, recognised on a straight line basis, and incremental lease rentals payable under rent escalation clauses in the leases recognised as they arise. Every investment property is accounted for individually. Operating lease agreements are based on long-term leasing contracts of 7 to 35 years.

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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) reassess 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 Accounting for Minority Interest

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.

3. REVERSE ACQUISITION ACCOUNTING

On 30 June 2005 the shareholders of both Regedo Holding AG ("Regedo") and USI Group Holdings Limited ("USI") approved the business combination between the two companies. The reverse acquisition was affected by a capital increase of CHF 119,784,256 in Regedo and the subsequent transfer of 739,820 shares of CHF 100 each to the shareholders of USI in a share swap transaction at the rate of 3.722 shares of USI for one share of Regedo. The share capital of Regedo was increased from CHF 2,400,000 to CHF 76,382,000. The new share issue gave USI shareholders a stake of 98.75% in Regedo.

On 30 June 2005 Regedo Holding AG changed its name to USI Group Holdings AG and relocated its headquarters to Zurich. The current bearer shares were converted to registered shares. On 27 July 2005 the new shares were listed at the SWX Swiss Stock Exchange under the ticker symbol USIN.

IFRS 3 requires that an acquirer must be identified in any business combination and that purchase accounting must be applied. USI is identified as the acquirer in this business combination because USI shareholders comprise 98.75% of the shareholders of the outstanding shares of Regedo after the reverse acquisition and the continuing operations and executive management were those of USI. Therefore, the business combination is accounted for as a reverse acquisition in accordance with IFRS 3.

As a consequence of applying reverse acquisition accounting, the results for the twelve months ended 31 December 2005 comprise only the results of USI for the period from 1 January 2005 to 30 June 2005 and the results of USI and Regedo after the business combination for the period from 1 July 2005 to 31 December 2005. The comparative figures for the twelve months ended 31 December 2004 are those of USI.

The half year closing on 30 June 2005 formed the basis for the acquisition accounting. There are a number of effects on the consolidated Financial Statements resulting from the adoption of reverse acquisition accounting. A deficit of CHF 8,264,089 was created reflecting the difference between the book value of the shares issued by Regedo as consideration for the acquisition of USI and the equity of USI, which has been adjusted against retained earnings.

Cost of the Business Combination

In accordance with IFRS 3 the cost of the business combination was calculated on the basis of the actual market value.

As at 30 June 2006	Number of Shares	Market Value CHF	Costs CHF
Fair value of purchase consideration	24,000	161.91	3,885,840
Fair value of Regedo Holding AG net assets and liabilities			3,910,218
Negative goodwill on reverse acquisition			(24,378)

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4. FINANCIAL RISK MANAGEMENT

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.

(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 US Dollar and the British Pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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 the US and Switzerland 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 Pounds Sterling. The Group will review this policy from time to time.

(ii) Price risk and market rental risks

The Group is exposed to property price and market rental risks. Wherever possible the Group builds into the terms of its leases indexation linked to consumer price indices, in order to manage its market rental risk.

(b) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to maintain a significant percentage of its borrowings in fixed rate instruments.

Strategy in using financial instruments

Cash flow hedges

The Group hedges a portion of cash flows from floating-rate bank borrowing using interest rate swaps. At 31 December 2006 interest rate swaps with an aggregate principal amount of CHF 94.047million (2005 – CHF 122.922 million) and a fair value of CHF 1,224,991 (2005 – CHF

2,420,044) were designated as interest rate hedges. The movement between these dates, reflecting a move to market of the interest rate swaps of 3,645,035 (2005 – negative CHF 2,309,719), was adjusted directly against the cash flow hedging reserve. These cash flows are not expected to crystallise as the borrowings will be held to maturity.

There were no transactions for which cash flow hedge accounting ceased in 2006 and 2005 as a result of the highly probable cash flows no longer expected to occur.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a portion of the notional amount of the contracts and the liquidity of the market. The Group assesses counterparties using the same techniques as for its lending activities to control the level of credit risk taken.

(c) Credit Risk

The Group's concentration of credit risk is primarily with its rental contracts with a limited number of customers in the UK, US and Switzerland. Management has assessed that the credit risk is low as the rental contracts are granted to customers with good credit history and due to the good record of recovery of receivables. Cash transactions are limited to high-credit-quality financial institutions. The Group continues to develop policies that limit the amount of credit exposure to specific financial institutions.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the Group's underlying business, Group Treasury aims to maintain flexibility in funding by maintaining sufficient levels of working capital.

5.CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments 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 CHF 13.70 million lower (2005 – CHF 15.40 million) or CHF 12.40 million higher (2005 – CHF 17.02 million).

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

(c) 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 except for a business under licence agreement (see note 2.6)

The key factors to make the classification between finance leases and operating leases is the estimated life of the properties. The Group estimated the life of the buildings between 70 years and 75 years. The leased periods are between 7 years and 35 years.

6. FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement & cash flow statement	
	31.12.2006 CHF	31.12.2005 CHF	Average 2006 CHF	Average 2005 CHF
GBP 1.00	0.41859	0.4587	0.43327	0.4393
USD 1.00	0.82005	0.8835	0.79850	0.8046

Notes to the Consolidated Financial Statements

7. ADMINISTRATIVE EXPENSES

	2006 CHF	2005 CHF
Professional fees	466,106	298,776
Audit fees	146,274	165,412
Property rent, maintenance and sundry expenses	354,041	251,123
Abort Costs	499,370	-
	1,465,791	**715,311**

8. FINANCE COSTS

	2006 CHF	2005 CHF
Other interest and borrowing expenses	4,549	87,988
Interest on notes	202,302	-
	206,851	**87,988**

9. 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.

	2006 CHF	2005 CHF
Net profit attributable to shareholders	27,164,015	23,212,063
Weighted average number of ordinary shares outstanding	769,338	719,996
Basic earnings per share (CHF per share)	**35.31**	**32.24**
Net loss from continued operations	(1,903,461)	(589,895)
Weighted average number of ordinary shares outstanding	769,338	719,996
Basic loss per share on continued operations (CHF per share)	**(2.47)**	**(0.82)**
Net profit from discontinued operations	29,067,476	23,801,958
Weighted average number of ordinary shares outstanding	769,338	719,996
Basic earnings per share (CHF per share)	**37.78**	**33.06**

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

	2006 CHF	2005 CHF
Total		
Net dilutive profit attributable to shareholders	27,531,515	23,212,063
Weighted average number of ordinary shares outstanding for dilutive earnings	844,644	818,204
Diluted earnings per share (CHF per share)	**32.60**	**28.37**
Discontinued		
Net profit from discontinued operations	29,434,976	23,801,958
Weighted average number of ordinary shares outstanding	844,644	818,204
Diluted earnings per share (CHF per share)	**34.85**	**29.09**

Notes to the Consolidated Financial Statements

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

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 135,264 shares in the Company.

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 2006 CHF 530,000 of 4% Senior Unsecured Pre-IPO Notes were outstanding.

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 2006 no options had been awarded. Conditional capital for this purpose was approved at the Annual General Meeting held on 22 May 2006.

In October 2006 the Company issued CHF 15 million of 3.5% subordinated Convertible Notes due 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 2006 as 75,306 (2005 – 98,244).

10. DIVIDENDS

The dividends paid in 2006 and 2005 were CHF nil and CHF 3,432,491 respectively. The dividend in 2005 equated to 6% p.a. from the date of the share subscriptions received under a private placement of shares issued by USI to 30 June 2005.

In August 2006 the Company completed a capital distribution to shareholders as described in Note 18.

11. INVESTMENT PROPERTY

	2006 CHF	2005 CHF
As at 1 January	**-**	**242,708,334**
Extension of properties	-	772,061
Additions from business combinations (Note 25)	-	36,304,000
Net gains on fair value adjustment (Note 24)	-	30,136,997
Net changes in fair value adjustments due to exchange differences	-	13,316,093
As at 31 December	**-**	**323,237,485**
Fire Insurance Value	**-**	**230,737,994**

The main change in investment property from the prior year relates to discontinued operations as described in Note 30.

Bank borrowings are secured on investment property as outlined in note 19.

Valuations of the investment properties were made as at 31 December 2005 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 6.5%–7.0% were appropriate under market conditions prevailing at 31 December 2005. USI has used 7.0% 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 6.15% and 7.50%. USI has used a mean capitalisation rate of 6.83% in preparation of the consolidated financial statement.

The valuation of the investment properties in Switzerland was conducted by Botta Management, AG, using a discounted cash flow analysis. Discount and capitalisation factors of 4.5% and 4.7% were used for the valuation at 31 December 2005.

Repairs of CHF 142,897 were incurred in 2005 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.

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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 73 to 75. This information is part of the notes to the consolidated financial statements.

12. RECEIVABLE FROM FINANCE LEASES

	2006 CHF	2005 CHF
Non-current		
Finance leases – gross receivables	-	67,813,247
Unearned finance income	-	(50,669,267)
As at 31 December	**-**	**17,143,980**
Current		
Finance leases – gross receivables	-	1,565,628
Unearned finance income	-	(1,565,628)
Total receivable from finance leases	**-**	**17,143,980**
Gross receivables from finance leases:		
- no later than 1 year	-	1,565,628
- later than 1 year and no later than 5 years	-	6,558,546
- later than 5 years	-	61,254,700
	-	**69,378,874**
Unearned future finance income on finance leases	-	(52,234,894)
Total receivable from finance leases	**-**	**17,143,980**
The net receivable from finance leases may be analysed as follows:		
- no later than 1 year	-	(183, 456)
- later than 1 year and no later than 5 years	-	(553,239)
- later than 5 years	-	17,880,674
	-	**17,143,980**

The main change in receivable from finance lease from the prior year relates to discontinued operations as described in Note 30.

In prior year financial statements the above finance lease was classified as an intangible asset, however having revisited the accounting treatment the directors have determined that this was an error and it should have been recognised as a finance lease. This has resulted in a reclassification from that shown in the prior year financial statements from intangible assets to a receivable from finance leases.

13. LOANS AND RECEIVABLES

	2006 CHF	2005 CHF
As at 1 January	**-**	**9,487,140**
Net changes in fair value adjustments due to exchange differences	-	365,961
As at 31 December	**-**	**9,853,101**

The main change in loans and receivables from the prior year relates to discontinued operations as described in Note 30.

Loans consist of 100% of the issued redeemable preference shares in lessee companies. These companies lease the UK investment properties as referred to in note 11.

The fair values of loans and receivables are as follows:

	2006 CHF	2005 CHF
Preference Shares	-	11,810,237

Notes to the Consolidated Financial Statements

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

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

	2006	2005
Preference Shares	-	11.17%

14. ACCRUED INCOME

	2006 CHF	2005 CHF
As at 1 January	**-**	**7,811,121**
Recognition of straight-line income	-	5,485,226
Impact of exchange rates	-	(172,005)
As at 31 December	**-**	**13,124,342**

The main change in accrued income from the prior year relates to discontinued operations as described in Note 30.

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

15. INVESTMENTS IN SUBSIDIARIES

The subsidiaries are :	Country of Incorporation	Ownership Percentage 2006	Ownership Percentage 2005
Continued:			
USIGH Limited (Incorporated 14 July 2006)	BVI	100%	-
USI AG	Switzerland	100%	100%
HCP Wellcare Six Limited (acquired 19 February 2004)	UK	100%	100%
Discontinued:			
Public Service Properties Investments Limited (formerly USI Group Holdings Limited)	BVI	100%	100%
United Properties Holdings Incorporation	USA	100%	100%
United Post Office Investments Incorporation	USA	100%	100%
United Properties Finance Incorporation	USA	100%	100%
USI Healthcare Investment Company Limited	BVI	100%	100%
Healthcare Properties UK (Holdings) Limited	BVI	100%	100%
Healthcare Properties UK Limited	Guernsey	100%	100%
Healthcare Properties (Ashlea) Limited	Guernsey	100%	100%
Healthcare Properties (Oxford) Limited	UK	100%	100%
The Manor House Nursing Home Limited	UK	100%	100%
Healthcare Properties LDK Limited	Guernsey	100%	100%
Healthcare Properties Etzelgut Limited	Guernsey	100%	100%
HCP Wellcare Holdings Limited	Guernsey	100%	100%
HCP Wellcare Group Holdings Limited	BVI	100%	100%
Healthcare Properties (Wellcare) Limited	UK	100%	100%
HCP Wellcare Progressive Lifestyles Limited	UK	100%	100%
HCP Community Support Services Limited	UK	100%	100%
HCP Wellcare One Limited	UK	100%	100%
HCP Wellcare Two Limited	UK	100%	100%
HCP Wellcare Three Limited	UK	100%	100%
HCP Wellcare Four Limited	UK	100%	100%
HCP Wellcare Five Limited	UK	100%	100%
HCP Wellcare Six Limited	UK	100%	100%
Hollygarth Care Homes Limited (acquired 5 May 2005 – Note 26)	UK	100%	100%

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

Notes to the Consolidated Financial Statements

16. RECEIVABLES AND PREPAYMENTS

	2006 CHF	2005 CHF
Other receivables	29,280	223,149
Prepayments	969	3,309,635
Amounts owed by Group Undertakings	6,940,702	5,783,246
	6,970,951	**9,316,030**

The main change in receivables and prepayments from the prior year relates to discontinued operations as described in Note 30.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	2006		2005	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Interest rate swaps – cash flow hedges	-	-	548,212	2,968,256
Option Fair Value	-	377,377	-	-

The main change in derivative financial instruments from the prior year relates to discontinued operations as described in Note 30.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2005 were CHF 122.922. At 31 December 2005, the fixed interest rates varied from 2.59% to 6.88%.

The interest rate swap in respect of the Bonds referred to in notes 4 & 19 has fixed the interest rate from August 2003 to August 2006 to match the maturity of the bonds. The interest rate swap has therefore been classified as current.

The interest rate swaps in respect of aggregate mortgage borrowings on the UK investment properties referred to in notes 4 & 19 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.

Option fair value

The option attached to the convertible note as described in note 19 has been treated as an imbedded derivative and has been recognised at fair value. The net change in fair value of this option has been recognised through the income statement.

18. SHARE CAPITAL

	31 Dec 2006 CHF	31 Dec 2005 CHF
Authorised:		
Equity interests: 778,004 (2005 – 763,820) Ordinary shares of CHF 95.55 (2005 – 100.00) each	74,338,282	76,382,000
Allotted, called up and fully paid:		
Equity interests: 778,004 (2004 – 763,820) Ordinary shares of CHF 95.50 (2005 – 100.00) each	74,338,282	76,382,000

Notes to the Consolidated Financial Statements

18. SHARE CAPITAL continued

	Number of Shares CHF	Ordinary Shares CHF	Share Premium CHF	Total CHF
At 31 December 2004 (USI)	**2,182,280**	**28,678**	**46,130,684**	**46,159,362**
Issue of new shares (USI)	546,071	35,108	21,807,732	21,842,840
Capital raising fees (USI)	-	-	(2,765,376)	(2,765,376)
New shares issued in lieu of dividends (USI)	87,671	1,107	3,505,733	3,506,840
	2,816,022	64,893	68,678,773	68,743,666
Contribution in kind (USI)	(2,816,022)	(64,893)	(68,678,773)	(68,743,666)
New shares issued (Regedo) (note 3)	739,820	73,982,000	-	73,982,000
Existing shares (Regedo) (note 3)	24,000	2,400,000	-	2,400,000
At 31 December 2005	**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**	**74,415,126**

18. SHARE CAPITAL continued

On 17 February 2005, 37,500 shares were issued by USI pursuant to a private placement ("PPM") at CHF 40 per share for cash.

On 3 March 2005, 379,448 shares were issued by USI pursuant to the PPM at CHF 40 per share. These shares were issued in exchange for the cancellation of preference shares of a subsidiary plus a share of the unrealised capital appreciation up to the date of conversion.

On 5 May 2005, 35,312 shares were issued by USI as a fee for identifying an acquisition referred to in note 3.

On 10 June 2005, 60,000 shares were issued pursuant to the PPM at CHF 40 per share for cash.

On 20 June 2005, 25,000 shares were issued by USI pursuant to the PPM at CHF 40 per share for cash.

On 30 June 2005, 8,811 shares were issued by USI in respect of management fees paid to Dr. Lanfranconi valued at CHF 40 per share.

On 30 June 2005, USI exchanged its 2'816'022 shares with a nominal value of USD 0.01 each for 739,820 shares of CHF 100 each in Regedo (subsequently changed to USI Group Holdings AG) via a contribution in kind. These shares were admitted to the SWX Swiss Exchange, Zurich on 27 July 2005.

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 36,491,501 through the issuance of up to 381,910 registered shares with a nominal value of CHF 95.55 each in respect of conditional capital for management, advisors, bondholders and creditors.

Also, under the articles of association, the board of directors may increase share capital in the amount of up to CHF 17,754,719 until May 2008 through the issuance of up to 185,816 fully paid in additional registered shares with a nominal value of CHF 95.55 each.

Notes to the Consolidated Financial Statements

19. BORROWINGS

	2006 CHF	2005 CHF
Non-current		
Mortgages	-	167,576,773
Bonds	-	-
Other	-	22,810,000
Senior Pre-IPO Notes	-	7,000,000
Notes	14,113,049	-
	14,113,049	**197,386,773**
Current		
Mortgages	-	4,016,566
Other	-	30,758,001
		34,774,567
Total borrowings	**14,113,049**	**232,161,340**

The main change in borrowings from the prior year relates to discontinued operations as described in Note 30.

Notes consist of CHF 15 million convertible bonds due 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.

Total borrowings include secured liabilities (Mortgages, bonds and other borrowings) of CHF nil (2005 – CHF 177,001,284). These borrowings are principally secured by the land and buildings of the Group (Note 11 & 29). At 31 December 2005 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:

	2006 CHF	2005 CHF
Current borrowings	**-**	**34,774,567**
Between 1 and 2 years	-	4,114,374
Between 2 and 5 years	-	25,985,855
Over 5 years	14,113,049	167,286,544
Non-current borrowings	**14,113,049**	**197,386,773**

The effective interest rates at the balance sheet date were as follows:

	2006			2005		
	£	USD	CHF	£	USD	CHF
Mortgages	-	-	-	6.55%		3.56%
Bonds	-	-	-	-	5.48%	-
Other	-	-	-	9.31%	-	6.11%
Senior Pre-IPO Notes	-	-	-	-	-	4.60%
Notes	-	-	7.67%	-	-	-

Notes to the Consolidated Financial Statements

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

	Carrying amounts		Fair values	
	2006 CHF	2005 CHF	2006 CHF	2005 CHF
Mortgages	-	167,576,772	-	109,167,069
Bonds	-	-	-	-
Other	-	22,810,000	-	19,992,474
Senior Pre-IPO Notes	-	7,000,001	-	5,532,202
Notes	14,113,049	-	14,458,121	-
	14,113,049	**197,386,773**	**14,458,121**	**134,691,745**

The fair values are based on cash flows discounted using a rate based upon a borrowings rate of 6.25% (2005 – between 3.07% and 6.88%).

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

	2006 CHF	2005 CHF
Pound sterling	-	157,703,338
US dollar	-	30,264,354
Swiss franc	14,113,049	44,193,648
	14,113,049	**232,161,340**

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.

	2006 CHF	2005 CHF
Deferred tax liabilities to be recovered after more than 12 months	-	34,010,158

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

	2006 CHF	2005 CHF
Beginning of the year	-	13,643,188
Income statement charge	-	13,130,063
Acquisition of subsidiary	-	6,726,823
Net changes due to exchange differences	-	505,084
End of the year	**-**	**34,010,158**

The main change in deferred taxation from the prior year relates to discontinued operations as described in Note 30.

Notes to the Consolidated Financial Statements

21. INCOME TAXES

	2006 CHF	2005 CHF
Current tax for continued operations	-	213,404

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:

	2006 CHF	2005 CHF
Loss before tax per consolidated income statement for continued operations	(1,903,461)	(803,299)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(532,969)	(240,990)
Used tax losses	79,487	25,471
Expenses not deductible for tax purposes	453,482	428,923
Tax charge for continued operations	**-**	**213,404**

The weighted average applicable tax rate was 28% (2005 – 30%). The increase in the effective tax rate is caused by a change in the profitability of certain of the Group's subsidiaries. As at 31 December the Group had unused tax losses of CHF 2.9 million, which expires between 2008 and 2013, these losses were not capitalised as it is unlikely that they will utilised by the Group.

22. TRADE AND OTHER PAYABLES

	2006 CHF	2005 CHF
Social security and other taxes	-	1,080
Other payables	-	88,027
Amounts owed by Group Undertakings	3,251,214	-
	3,289,235	**89,107**

23. ACCRUALS

	2006 CHF	2005 CHF
Interest and other finance costs	-	1,386,078
Other accrued expenses	523,566	2,121,050
	523,566	**3,507,128**

The main change in accruals from prior year relates to discontinued operations as described in Note 30.

Notes to the Consolidated Financial Statements

24. CASH GENERATED FROM OPERATIONS

	2006 CHF	2005 CHF
Profit for the year attributable to equity holders:	27,164,015	23,212,063
Adjustments for:		
Interest expense (Note 9)	15,049,153	15,846,469
Interest income	(4,767,965)	(1,742,481)
Tax	9,408,771	13,252,449
Negative goodwill	-	(1,207,024)
Changes in derivative financial instruments	-	(635,184)
Amortisation of Loan Notes	199,893	317,723
Changes in fair value of investment property/loans (Note 17 & 30a)	(35,530,698)	(30,136,997)
Changes in other liabilities	-	(401,362)
Changes in receivables and prepayments	4,086,997	(84,003)
Changes in accrued income	(3,995,716)	(5,510,763)
Changes in trade and other payables	(131,772)	4,776,659
Changes in accruals	1,261,628	(5,274,726)
Cash generated from operations	**12,744,305**	**12.412.823**

25. CASH GENERATED FROM CONTINUED OPERATIONS

	2006 CHF	2005 CHF
Net loss ffrom continued operations:	(1,903,461)	(589,895)
Adjustments for:		
Interest expense (Note 9)	206,851	87,988
Interest income	(6,658)	-
Tax	-	(213,404)
Changes in fair value of options	237,477	-
Changes in receivables and prepayments	(6,949,898)	2,204,419
Changes in trade and other payables	5,790,408	(4,889,227)
Changes in accruals	340,326	380,164
	1,261,628	(5,274,726)
Cash used by continued operations	**(2,284,955)**	**(3,019,955)**

26. BUSINESS COMBINATIONS

Acquisition of Regedo Holding AG

There were no business combinations in 2006.

As at 30 June 2005 USI acquired Regedo in a reverse acquisition. Regedo was a dormant company at the time of the reverse acquisition.

The fair value of each class of assets acquired and liabilities assumed was as follows:

	CHF
Cash	3,964,519
Current assets	2,637
Current liabilities	(56,938)
Fair value of asset acquired	**3,910,218**
Negative goodwill on reverse acquisition (note 3)	(24,378)
Acquisition cost	**3,885,840**
Satisfied by issue of new shares in USI referred to in note 18	
Cash acquired on acquisition	**3,964,519**

The fair value of each class of assets acquired and liabilities assumed as outlined above are equal to the carrying amount determined in accordance with IFRS immediately before the reverse acquisition. This acquisition contributed revenues of CHF 4,693 and a net loss of CHF 561,071 to the Group for the period from 30 June 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, revenues of CHF 9,386 and a net loss of CHF 588,094 would have been contributed.

OTHER BUSINESS COMBINATIONS

On 5 May 2005, the Group acquired 100% of the issued share capital of Hollygarth Care Homes Limited, an owner and operator of nursing and residential care home facilities in the United Kingdom. On the same day the assets and business were leased to a third party operator at an initial rent of £1.2 million (CHF 2.7 million) per annum. The lease is for an initial period of 7 years, with the lessee having options to renew for a further periods up to 35 years from the date of the initial lease. The lease contributed revenues of CHF 1,875,609, negative goodwill of CHF 1,182,646, and net profit of CHF 24,144, to the Group for the period from 5 May 2005 to 31 December 2005.

Notes to the Consolidated Financial Statements

If the acquisition had occurred on 1 January 2005, the lease would have contributed revenues of CHF 2,813,414 and net profit of CHF 36,216. As part of the acquisition, the Group borrowed £12.765 million (CHF 28.90 million) from the Bank of Scotland. The loan requires payment of interest only during the first three years and 50% amortisation of the principal during years 4–10 of the facility with the balance 50% repayable at maturity in May 2015. The additional borrowings are secured by the land and buildings acquired and by cross guarantees with other group entities that already had existing facilities outstanding from the same lender.

Details of net assets acquired and negative goodwill are as follows:

	CHF
Purchase consideration:	
Cash paid	27,711,842
Direct costs relating to acquisition	1,828,431
Total purchase consideration	**29,540,273**
Fair value of net assets acquired	30,722,919
Negative goodwill on business combinations	**1,182,646**

27. RELATED PARTY TRANSACTIONS

The following transactions relate to continued operations:

Dr. iur V Lanfranconi is a director of the Company and also of some of the subsidiaries. Dr 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 6.17% of the issued ordinary share capital of the Company at 31 December 2006 (31 December 2005 – 6.13%).

The Group was charged CHF 450,000 (2005 CHF nil) 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.

The Group was charged CHF nil (2005 – CHF 500,000) by RP&C during the period for advice regarding the reverse acquisition referred to in note 3. RP&C re-allocated 40% of this fee to Dr iur. V Lanfranconi.

The Group was charged CHF nil (2005 – CHF 489,000) by RP&C during the period for services rendered in connection with a private placement of shares.

In June 2005, RP&C and Dr iur V Lanfranconi purchased 6,113 and 6,112 shares at CHF 40 per share, respectively from an investor in the private placement of shares

In May 2005, 35,312 shares were issued by USI Group Holdings Limited in favour of ECL for identifying the Hollygarth Care Homes Limited acquisition opportunity described in note 26. These shares were exchanged for shares in the Company as part of the reverse acquisition referred to in note 26.

Effective 30 June 2005, Dr iur V & Mrs Lanfranconi, the RP&C Group and ECL received 54,736, 6,129 and 6,482 shares in USI Group Holdings Limited, respectively, in lieu of the dividend declared for the period ended 30 June 2005. All of these shares were exchanged for shares in the Company as part of the reverse acquisition referred to in note 3.

For the year ended 31 December 2006, the Group was charged CHF 208,460 (2005 – CHF 140,000) management fees and other charges for services rendered by Dr. iur V. Lanfranconi.

The following directors fees were recognised in 2006 and all these amounts were outstanding at the year end.

	2006 CHF	2005 CHF
Mr Robert Bider	30,000	15,000
Mr Armin Hilti	30,000	15,000
Dr. Volkert Klaucke	30,000	15,000
Mr William Vanderfelt	-	15,000

The following transactions relate to discontinued operations:
The Group was charged 3,973,400 (2005 – CHF 3,268,736) management fees for services rendered by RP&C. The Group was charged CHF nil (2005 – CHF 407,644) during the year for negotiating new acquisitions. These fees have been expensed as part of professional fees. One third of all fees received by RP&C have been re-allocated to Dr iur. V Lanfranconi.

The Group was charged US$460,000 (2005 $nil) by RP&C during the period for services rendered in connection with re-financing $23millin loan notes. One third of this fee was re-allocated to Dr. iur V Lanfranconi.

Notes to the Consolidated Financial Statements

The Group was charged CHF 1,300,000 (2005 – CHF nil) by RP&C during the period for services rendered in connection with the AIM floatation of Public Service Properties Investments Limited as detailed in note 30. One third of this fee was re-allocated to Dr. iur V Lanfranconi.

As part of the original purchase and financing of the US investment properties, Dr iur. V Lanfranconi had posted three Letters of Credit with an aggregate value of USD 3.13 million (2005 – USD 3.13 million) in favour of QBE Insurance Group ("QBE"). In 2005, the group assumed responsibility for these obligations to the providers of the Letters of Credit, which were subsequently released in 2006 as part of the $23m re-financing mentioned above. In addition, 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 (2005 – £900,000) also in favour of QBE. During the year, the Group paid CHF 42,215 (2005 - CHF 71,315) in respect of the charges in respect of these Letters of Credit.

Esquire Consolidated Limited ("ECL"), one of the shareholders of the parent company also 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 2006 was CHF 18,075,097 (2005 – CHF 16,378,061) and CHF 2,318,367 (2005 – CHF 1,558,813) respectively.

At 31 December 2006 the Group had outstanding loans to subsidiaries of ECL of £4,351,500 (31 December 2005 - £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 2006 the group also had outstanding mezzanine loans and interest thereon to subsidiaries of ECL of £2,952,750 (2005 – £nil) as disclosed in note 13.

At 31 December 2006 the Group had outstanding loans of CHF 23 (2005 – CHF 23ml) 5.76% fixed interest, £3,750,000 (31 December 2005 – £3,750,000) 5.02% fixed interest and £7,500,000 (31 December 2005 - £7,500,000) 5.98% fixed interest from Nationwide Insurance Group, which is a minority shareholder of RP&C.

28. EMPLOYEES

The Company had no employees at 31 December 2006 (2005 – none).

29. FINANCIAL COMMITMENTS

	2006 CHF	2005 CHF
Commitments for capital expenditure:		
Authorised and contracted for	nil	297,952

30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On 20 October 2006, USI Group Holdings AG announced that it had appointed advisors in relation to a proposed admission of the shares of its wholly owned subsidiary Public Service Properties Investments Limited (formerly known as USI Group Holdings Limited ("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 cannot be sold before 26 March 2008. The Company will receive approximately CHF 115 million, net of estimated fees and expenses of CHF 3 million, and reflect a profit of approximately CHF 5 million as a result of the transaction. At the same time, the Company invested approximately CHF 20 million in the Capital increase of PSPI in order to maintain 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.

The assets and liabilities of PSPI as mentioned above have been presented as held for sale.

	2006 CHF	2005 CHF
Operating cash flows	405,372	(6,601,058)
Investing cash flows	(5,536,313)	(28,447,423)
Financing cash flows	(864,687)	28,807,659
Total cash flows	**(5,995,628)**	**(6,240,822)**

Notes to the Consolidated Financial Statements

	Note	2006 CHF	2005 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**	**-**

	Note	2006 CHF	2005 CHF
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 assets classified as held for sale:		**285,800,855**	**-**

	Note	2006 CHF	2005 CHF
Analysis of the result of discontinued operations:			
Revenue		25,576,281	25,899,093
Fair Value Gains		35,768,175	30,136,997
Expenses (net of interest income)		(22,868,209)	(18,768,279)
Profit from discontinued operations – before tax		**38,476,247**	**37,267,811**
Tax		(9,408,771)	(13,465,853)
Profit for the year from discontinued operations		**29,067,476**	**23,801,958**

a) INVESTMENT PROPERTY

	2006 CHF	2005 CHF
As at 1 January	**323,237,485**	**-**
Extension of properties	338,409	-
Additions from business combinations		-
Net gains on fair value adjustment	35,300,224	-
Net changes in fair value adjustments due to exchange differences	12,972,656	-
	3,812,801	**38,559,356**
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 30 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.

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 52 to 54. This information is part of the notes to the consolidated financial statements.

b) RECEIVABLE FROM FINANCE LEASES

	2006 CHF	2005 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 32 years.

Notes to the Consolidated Financial Statements

c) LOANS AND RECEIVABLES

	2006 CHF	2005 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 30 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:

	2006 CHF	2005 CHF
Preference Shares	12,526,705	-
Mezzanine Loans	7,054,120	-
Total cash flows	**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:

	2006 CHF	2005 CHF
Preference Shares	12.40%	-
Mezzanine Loans	15.89%	-

d) ACCRUED INCOME

	2006 CHF	2005 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.

Notes to the Consolidated Financial Statements

e) DERIVATIVE FINANCIAL INSTRUMENTS

	2006 Assets CHF	2006 Liabilities CHF	2005 Assets CHF	2005 Liabilities CHF
Interest rate swaps – cash flow hedges	1,224,991	-	-	-

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 properties referred to in notes 4 & 19 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

	2006 CHF	2005 CHF
Non-current		
Mortgages	143,656,463	-
Bonds	27,191,710	-
Other	40,674,799	-
Senior Pre-IPO Notes	530,000	-
Notes	-	-
	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.

Notes to the Consolidated Financial Statements

The maturity of non-current is as follows:

	2006 CHF	2005 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 effective interest rates at the balance sheet date were as follows:

	2006			2005		
	£	USD	CHF	£	USD	CHF
Discontinued						
Mortgages	6.45%	-	3.56%	-	-	-
Bonds		7.21%		-	-	-
Other	9.31%	-	6.11%	-	-	-
Senior Pre-IPO Notes	-	-	4.33%	-	-	-

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

	Carrying amounts		Fair values	
	2006 CHF	2005 CHF	2006 CHF	2005 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:

	2006 CHF	2005 CHF
Pound sterling	164,409,083	-
US dollar	27,191,710	-
Swiss franc	36,891,815	-
	228,492,608	**-**

Notes to the Consolidated Financial Statements

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.

	2006 CHF	2005 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:

	2006 CHF	2005 CHF
Beginning of the year	34,010,158	-
Income statement charge	9,962,098	-
Net changes due to exchange differences	2,191,648	-
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:

Deferred tax liabilities	Business combinations CHF	Fair value gains CHF	Straight line recognition of lease income CHF	Total CHF
At 31 December 2005	**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**

31. SUBSEQUENT EVENTS

On the 26 March 2007 the Company sold a majority interest in its wholly owned subsidiary, PSPI to institutional investors for cash. These assets have been treated as non-current assets held for sale and as discontinued operations as described in Note 30. The Company realised a profit of approximately CHF 5 million upon this transaction. Contemporaneous with this sale, PSPI raised additional funds though a placing of new shares for cash. Following this sale and fund raising, USI will own approximately 25.16% of the enlarged equity of PSPI.

USI will remain the largest single shareholder of PSPI whose shares admitted to trading on the AIM market of the London Stock Exchange.

Notes to the Consolidated Financial Statements

32. SEGMENT INFORMATION

For the year ended 31 December 2006

SEGMENT

	Note	UK CHF Discontinued	US CHF Discontinued	Switzerland CHF Discontinud	Switzerland CHF Continued	Switzerland CHF Total	Total CHF
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)	(237,477)	(1,937,697)	35,530,698
Administrative expenses		(9,507,742)	(614,068)	(224,663)	(1,465,791)	(1,690,454)	(11,812,264)
Interest income		4,660,701	100,609	-	6,658	6,658	4,767,968
Segment result		**53,306,761**	**3,187,956**	**(735,424)**	**(1,696,610)**	**(2,432,034)**	**54,062,683**
Finance costs - net		(14,116,233)	(2,523,234)	(643,579)	(206,851)	(850,430)	(17,489,897)
Segment profit/(loss) before income tax		**39,190,528**	**664,722**	**(1,379,006)**	**(1,903,461)**	**(3,282,464)**	**36,372,786**
Income Taxes		(9,994,473)	-	585,702	-	585,702	(9,408,771)
Profit for the year		**29,196,055**	**664,722**	**(793,301)**	**(1,903,461)**	**(2,696,762)**	**27,164,015**
Attributable to:							
Equity holders of the Company							27,164,015
Minority interests							-
							27,164,015
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							(23,698,242)
Total liabilities							**(304,104,082)**

For the year ended 31 December 2005

SEGMENT

	Note	UK CHF Discontinued	US CHF Discontinued	Switzerland CHF Discontinud	Switzerland CHF Continued	Switzerland CHF Total	Total CHF
Revenue		23,336,309	2,874,418	1,166,825	-	1,116,825	27,377,552
Net gain on fair value adjustments		29,860,561	420,731	(144,295)	-	(144,295)	30,136,997
Negative Goodwill		1,182,646	-	24,378	-	24,378	1,207,024
Administrative expenses		(5,760,869)	(426,996)	(211,687)	(715,311)	(926,998)	(7,114,863)
Interest income		1,693,946	39,265	9,270	-	9,270	1,742,481
Segment result		**50,312,593**	**2,907,418**	**844,491**	**(715,311)**	**129,180**	**53,349,191**
Finance costs - net		(14,438,369)	(1,851,342)	(506,980)	(87,988)	(594,968)	(16,884,679)
Segment profit/(loss) before income tax		**35,874,224**	**1,056,076**	**337,511**	**(803,299)**	**(465,788)**	**36,464,512**
Income Taxes		(13,456,231)	-	(9,622)	213,404	203,782	(13,252,449)
Profit for the year		**22,417,993**	**1,056,076**	**327,889**	**(589,895)**	**(262,006)**	**23,212,063**
Attributable to:							
Equity holders of the Company		22,417,993	1,056,076	327,889	(589,895)	(262,006)	23,212,063
Minority interests		-	-	-	-	-	-
							23,212,063
ASSETS							
Segment assets		301,380,198	43,478,441	30,581,677	-	-	375,440,316
Unallocated assets							13,462,668
Total assets							**388,902,984**
LIABILITIES							
Segment liabilities		(193,372,296)	(30,683,532)	(18,722,979)	-	-	(242,778,807)
Unallocated liabilities							(30,145,736)
Total liabilities							**(272,942,543)**

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zürich
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 48 to 51, of USI Group Holdings AG for the year ended 31 December 2006.

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

Adrian Steiner

Zurich, 29 March 2007

Balance Sheet

USI Group Holdings AG

	31.12.2006 CHF	31.12.2005 CHF
ASSETS		
Cash and cash equivalents	5,643,761	2,522,984
Receivables third parties	969	969
Prepaid expenses	29,281	25,687
Total current assets	5,674,011	2,549,640
Investments	122,498,103	122,498,103
Total non-current assets	122,498,103	122,498,103
TOTAL ASSETS	**128,172,114**	**125,047,743**
LIABILITIES		
Other current liabilities		
Shareholders	38,022	37,866
Intercompany	10,091,918	4,858,580
Accrued expenses	479,820	184,021
Total liabilities	**10,609,760**	**5,080,467**
Share capital	74,338,282	76,382,000
Legal reserves	45,336,550	44,259,707
General reserves	45,336,550	44,259,707
Accumulated deficit	(2,112,478)	(674,431)
Balance carried forward from prior year	(674,431)	(86,337)
Annual loss	(1,438,047)	(588,094)
Total shareholders' equity	**117,562,354**	**119,967,276**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**128,172,114**	**125,047,743**

Income Statement

USI Group Holdings AG (formerly Regedo Holding AG)

1 January – 31 December	2006 CHF	2005 CHF
Other income	-	-
Other income		
Directors' fees	(90,000)	(45,000)
Professional fees	(411,484)	(298,776)
Tax consultancy	(12,266)	(4,734)
Audit fees	(136,274)	(165,412)
Listing fees	(10,280)	(19,000)
Insurance	(34,239)	(12,843)
Abort Costs	(499,370)	-
Rent, maintenance and general administration expenses	(246,244)	(25,246)
EBIT	(1,310,157)	(571,011)
Financial expenses	(4,549)	(7,376)
Financial income	6,659	9,386
Loss before tax expenses	(1,438,047)	(569,001)
Tax expenses / reclaims	-	(19,093)
NET LOSS	**(1,438,047)**	**(588,094)**

Notes

USI Group Holdings AG

To the financial statements at 31 December 2006

Disclosures required by Swiss law:

Company information

On 30 June 2005 Regedo Holding AG changed its name to USI Group Holdings AG and relocated its headquarters from Regensdorf to Zurich. In addition the current bearer shares of 24,000 were converted to registered shares.

Capital Reduction

On 22 May 2006 a capital distribution took place that reduced the share capital of USI Group Holdings AG from CHF 76,382,000 (763,820 shares with a nominal value of CHF 100.00 each) to CHF 72,983,001 (763,820 shares with a nominal value of CHF 95.55 each).

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 95.55 each until the 22 May 2008.

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 95.55 each until the 22 May 2008.

During 2006 a re-investment of 14,184 shares in the amount of CHF 1,355,281 took place.

Guarantees

A joint and several guarantee exists with Healthcare Properties Etzelgut Limited, a subsidiary undertaking, for CHF 6,000,000 (2005 – CHF nil)

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.

	31.12.2006	31.12.2005
USI Limited	59.39%	59.00%
USI USA II	5.78%	5.94%
Esquire Consolidated Limited	7.32%	7.27%
Equinox USI Limited	5.12%	5.22%
European Asset Value	5.02%	3.18%

Notes

Significant investments

	Domicile	Share capital	Shares held	Type of shares and nominal value	Ownership
Public Service Properties Investments Limited	British Virgin Islands	$28,160.22	2,816,022	Ordinary USD0.01	100%
USIGH Limited	British Virgin Islands	$0.02	2	Ordinary USD0.01	100%

The companies are holding and finance companies.

Reconciliation of accumulated deficit

	31.12.06 CHF	31.12.05 CHF
Accumulated deficit		
Accumulated deficit at 1 January	(674,431)	(86,337)
Net loss	(1,438,047)	(588,094)
Accumulated deficit	(2,112,478)	(674,431)
Net accumulated deficit	(2,112,478)	(674,431)

Other Information (Audited)

for the year ended 31 December 2006

Property investments by segment as at 31 December 2006

Located in:	CHF millions	%
United Kingdom	305.0	82.0
United States	37.8	10.2
Switzerland	29.0	7.8
	371.8	**100.0**

Movement in Investment Properties by segment is as follows:

	UK CHF	US CHF	Switzerland CHF	Total CHF
As at 1 January 2005	**172,581,439**	**39,540,000**	**30,586,895**	**242,708,334**
Extension of properties	627,766	-	144,295	772,061
Additions from business combinations	36,304,000	-	-	36,304,000
Net gains on fair value adjustment	29,647,076	634,216	(144,295)	30,136,997
Net changes in fair value adjustments due to exchange differences	13,559,323	(243,230)	-	13,316,093
As at 31 December 2005	**252,719,604**	**39,930,986**	**30,586,895**	**323,237,485**
As at 1 January 2006	**252,719,604**	**39,930,986**	**30,586,895**	**323,237,485**
Extension of properties	338,409	-	-	338,409
Net gains on fair value adjustment	36,036,830	820,289	(1,556,895)	35,300,224
Net changes in fair value adjustments due to exchange differences	15,859,028	(2,948,697)	-	12,972,656
As at 31 December 2006	**305,016,196**	**37,802,578**	**29,030,000**	**371,848,774**

For information on the valuation methodology and details of the appraisers used to value the investment properties at 31 December 2005 please refer to Note 11 (Page 33) and to Pages 76–79 of this report.

Other Information (Audited)

Property Details

Property Details	Owner[1]	Ownership status[2]	Approximate Year of construction	Year of renovation	% of leased usable space	No. of registered beds	As % of Investment Properties Portfolio	Gross internal area M^2
United States of America								
140 post offices located in 32 states	UPOI	FH	1962-1989	-	100	N/A[4]	10.6	28,498
Switzerland								
Etzelgut, Etzelstrasse 14, 8038 Zurich	HCPETZ	FH	1931/1983	2005	100	55	8.1	2,249
United Kingdom								
Manor House, Merton, Bicester, Oxfordshire	HCPO	FH	16th century & 1990s	2003	100	102	8.0	3,990
Walton Progressive School & Resource Centre, Rice Lane, Liverpool, Merseyside	HCSS	FH	1985 & 2001	2005	100	90[5]	7.2	2,500
Allanbank, Bankend Road, Dumfries	HCPW	FH	2000	-	100	67	6.2	4,530
Rosewell, High Littleton, Bath, Somerset	HCPUK	FH	1998	-	100	94	5.7	3,010
Hunter Units, Beechwood Road, Liverpool, Merseyside	HCPW	FH	1990-1998	2005	100	23	3.2	765
Arthur's Court, 27 Highfield Road, Street, Somerset	HCPUK	FH	1992	-	100	40	2.6	1,280
Thornbury, 58 Thorndale Road, Sunderland	HCPO	FH	2004	-	100	44	2.4	1,540
Lakehouse & Orchard House, Riccall Lane, Kelfield, York	HCPLDK	FH	1970s & 1980	1998	100	61	2.3	2,120
Dunollie Nursing Home, 31 Filey Road, Scarborough, North Yorkshire	HCPLDK	FH	1901	1994	100	66	2.2	2,280
Administration Offices, Sefton Park Road Liverpool, Merseyside	HCPW	FH	1998	2000	100	N/A[4]	2.0	N/A
Dovecote, Hugar Road, Gateshead, Tyne & Wear	HCPUK	FH	1995	-	100	61	2.1	2,040
Lakeview, Chorley Road, Withnell, Chorley, Lancashire	HCPUK	FH	1990s	-	100	57	2.1	1,850

[1] 1 HCSS = HCP Community Support Services Limited; HCPETZ = Healthcare Properties Etzelgut Limited
HCPLDK = Healthcare Properties LDK Limited; HCPO = Healthcare Properties (Oxford) Limited
HCPUK = Healthcare Properties UK Limited; HCPW = Healthcare Properties (Wellcare) Limited
UPOI = United Post Office Investments, Inc.

[2] FH = Freehold (100%)

[3] The USI Group also owns a further 26 properties within the residential care sector. The current fair value of each of these properties represents less than 2.0% percent of the Group's total gross assets.

[4] Not applicable as property used as non-residential facilities.

[5] Day spaces for 40 children and 50 adults.

Significant Lessees of USI Group Owned Properties

	Location	Details of leased properties	Lease period expiry date	Aggregate annual lease payments	Percentage of total lease payments to the USI Group
United States Postal Service	USA	140 US post office facilities	February 2022	USD 2,300,574 (CHF 2,805,407)	11.6%
European Care (UK) Limited	London, UK	11 UK nursing/ residential homes	March 2036	GBP 2,352,656 (CHF 5,620,495)	23.3%
European Care (SW) Limited	London, UK	7 UK nursing/ residential homes	May 2036 to February 2037[1]	GBP 942,523 (CHF 2,251,687)	9.3%
European Care (England) Limited	London, UK	8 UK nursing/ residential homes	May 2012	GBP 1,231,201 (CHF 2,941,339)	12.2%
European Care (England) Limited	London, UK	1 UK nursing/ residential homes	December 2037	GBP 828,211 (CHF 1,978,596)	8.2%
European Wellcare Homes Limited	London, UK	8 UK nursing/ residential homes and offices	February 2039	GBP 1,677,091 (CHF 4,006,570)	16.6%
European Wellcare Education Limited	London, UK	1 UK school	February 2039	GBP 725,021 (CHF 1,779,855)	7.4%
European Wellcare (Dumfries) Limited	London, UK	1 UK nursing/ residential home	February 2039	GBP 642,515 (CHF 1,534,968)	6.4%
topCare Management AG	Zurich, Switzerland	Etzelgut Swiss nursing home	June 2023	CHF 1,189,459	4.9%

In addition, HCP Wellcare Progressive Lifestyles Limited, a USI Group company, has licensed its assisted living business to European Care Lifestyles Limited of London, UK, a European Care Group company and the current annual licence payments are GBP 718,655 (CHF 1,716,867).

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.

[1] Exchange rate based on GBP: CHF = 0.41859 and USD:CHF = 0.82005.

[2] 18.0% of the value of leases expire in May 2036, 28.7% expire in August 2036 and 53.3% expire in February 2037.

Other Information

Independent Appraisal Firms and Valuation Methods

The USI Group has commissioned CCRE, 9 Marylebone Lane, London W1U 1HL, England, Botta Management Group AG ("Botta"), Mühlegasse 12a, CH-6342 Baar, Switzerland, and Real Estate Asset Counselling Inc. ("REAC"), P.O.Box 27, Maysville, Kentucky 41056-0027, USA, for the purpose of estimating the fair value of the real estate holdings owned by the USI Group.

Valuation methods of CCRE

The valuations are based on a portfolio evaluation of the properties held in the UK healthcare sector having due regard to the individual performance of each property. The valuations are based on information supplied by the USI Group and the operator of the properties in the UK. The valuations are provided in accordance with Practice Statement 4.2 of the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual as updated on 1 August 2002. The valuations assess the market value of the property in accordance with PS 3.2 of the Appraisal Valuation Standards issued by the Royal Institute of Chartered Surveyors, which 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."

In addition, the interpreted commentary on market value, as published in International Valuation Standards 1, has been applied.

Based on the detailed review of relevant information, CCRE determines an appropriate yield that would be bid by the market for the portfolio of investments owned by the USI Group were they to be offered in the market. The yield is applied as a capitalisation rate to the current rental income received by the USI Group, hence the lower the capitalisation yield, the higher the market value. Based on current market conditions, CCRE concluded that a capitalisation rate of 6.0%–6.25% was appropriate under market conditions prevailing at 31 December 2006. USI has used a capitalisation rate of 6.25% in preparation of the consolidated financial statements.

In determining the appropriate capitalisation rate to be used, CCRE takes into consideration the following factors:

(i) Each of the homes in the portfolio has been inspected by CCRE within the preceding 24 months and the valuation has due regard to the property, location, trading style, historic performance and local demographic and competitive environment plus a key performance index compared to a peer group.

(ii) The detailed management accounts, forecasts and budgets provided in respect of the portfolio by the operator are analysed on a consistent basis and compared to a peer group.

(iii) The properties are subject to individual registration by the Commission for Social Care Inspection and it is assumed that all the properties are in compliance with the current registration requirements.

(iv) It is assumed that the properties will continue to be professionally managed by the operator and that current trading conditions continue throughout the term of the lease.

(v) The historical operating results and the budgets are assessed on an EBITDAR basis (earnings before interest, tax, depreciation, amortisation and rent). Excluded from this review are directors' remuneration, financial servicing costs and head office and regional management charges incurred by the operator.

(vi) The valuation in the investment portfolio has due regard to the level of rental payable within the individual leases and assesses on a unit by unit basis the level of profit after payment of rent expressed on an EBITDA basis (earnings before interest, tax, depreciation and amortisation).

(vii) Having due regard to the investment yield that the market would apply to the individual investments which form the portfolio having regard to the properties, EBITDAR performance evidenced and to the covenant strength of the operator. This includes an assessment of the level of rent cover by comparing EBITDAR to rental payments.

(viii) Having due regard to comparable transactions with which CCRE have direct knowledge and those reported in the press.

(ix) Having due regard to the standard lease between the operator and the USI Group, including consideration as to covenants in respect of repairs, alteration and insurance and the minimum and maximum annual rental increases.

Valuation methods of REAC

The valuation of the investment portfolio located in the United States has been based on a review of various valuation techniques. The principal valuation techniques assessed and compared to the relevant portfolio and other factors include:

(i) i) Gross rent multiple ("GRM")

(ii) Direct capitalisation of net operating income ("NOI")

(iii) Current market conditions

REAC assessed the current multiples arising from transactions undertaken in the sector within the last 24 months and concluded that the multiples range between 12.75 and 13.75 times the GRM.

Other Information

The direct capitalisation of the NOI approach is derived from comparing the gross rental income and deducting direct operating costs incurred by the landlord. Based on the most recent transactions in the sector reviewed by REAC, the overall direct capitalisation rates ranged between 6.33% and 7.50%.

REAC concluded that it is still a strong "sellers market" with prospective investors outnumbering sellers dramatically.

Based on an assessment of all of the factors referred to above, REAC concluded that the portfolio owned by the USI Group could be marketed within the indicated ranges referred to above both in terms of GRM and NOI. USI has used the lowest end of the range in preparation of the consolidated financial statements.

Valuation method of Botta

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

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

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

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

(i) Object: name of the property.

(ii) Initial year: determination of the point in time, on which the calculation will be conducted. Normally this will be the present year.

(iii) Examination period: as examination period one assumes 20 years. Over this period exact information relating to the future earnings and expenses can normally be given.

(iv) Discount factor: The discount factor is the interest rate by which future earnings are being discounted to the present value. Starting point for the determination of the interest rate is normally the actual sustainable interest rate for 10 year Federal Bonds. A risk premium is charged additionally. Thereby market risks relating to the property are accounted for. The risk premium varies for a normal customary property between 2% and 4%. Main factors are the location of the property with respect to the use and the risk of renting out. For purposes of valuing Etzelgut, a risk premium of 2.4% is applied as it is considered to be a small risk. A discount factor of 4.5%–4.7% was used for the valuation at 31 December 2006.

(v) Capitalisation factor, Calculation of Residual Value: With this interest rate the residual value of the property can be calculated. The capitalisation factor is – depending on the examination period and the condition of the property – 0.0%-0.5% higher than the discount factor.

(vi) General increase in renting costs: Thereby future general increase in prices with respect to earnings in connection with a property can be accounted for.

(vii) General increase in costs: Thereby future general increases in prices with respect to expenses in connection with a property can be accounted for.

(viii) Adjustment Amount: Here extraordinary expenses can be accommodated.

Neither the Company nor any member of the USI Group has any relationship with the foregoing appraisal firms.

Corporate Governance Report

1. Background

USI Limited, Tortola (BVI) (hereinafter "USI Limited") acquired 9'914 bearer shares and all of the 24'000 registered shares and therefore 51.31% of the share capital and 74.37% of the voting power in Regedo Holding AG (former name of USI Group Holdings AG, hereinafter the "Company") from Hilti Holding AG, Glarus, in 2004. Following this acquisition USI Limited launched a tender offer and acquired 78.93% of the voting power and 59.97% of the share capital in Regedo Holding AG at the end of June 2005.

Based on the resolutions adopted at the annual general meeting of shareholders 2005 (see section 2, page 59) and the resolutions of the board of directors (hereinafter the "Board") of 30 June 2005, the Company increased its share capital from CHF 2'400'000 to CHF 76,382,000 by issuing 739'820 new registered shares with a par value of CHF 100 each. The registered shares were paid up by means of a contribution in kind in form of a transfer of shares of Public Service Properties Investments Limited (formerly USI Group Holdings Limited) (BVI) (the "Reverse Merger"). Before the Reverse Merger USI Group Holdings Limited (BVI) was directly held by USI Limited and certain other shareholders.

Following the Reverse Merger, Public Service Properties Investments Limited (BVI) became a wholly owned subsidiary of the Company and the Company has become the parent company of Public Service Properties Investments Limited (BVI) and its subsidiaries (hereinafter the "USI Group").

In July 2006 the Company incorporated USIGH Limited, a British Virgin Islands. The ownership of Public Service Properties Investments Limited has since been transferred to this company.

The principal shareholding of the USI Group are as follows:

Company	No of Shares Owned	Type of Shares and Nominal Value	Ownership	Voting Rights
Public Services Properties Investments Limited (formerly USI Group Holdings Limited)	2,816,022	Ordinary USD 0.01	100%	100%
USI AG	150,000	Ordinary CHF 1,000	100%	100%
HCP Wellcare Group Holdings Limited	100	Ordinary £0.01	100%	100%
Healthcare Properties Etzelgut Limited	100	Ordinary £1	100%	100%
Healthcare Properties UK (Holdings) Limited	200	Ordinary £0.01	100%	100%
Healthcare Properties (Ashlea) Limited	100	Ordinary £1	100%	100%
Healthcare Properties LDK Limited	100	Ordinary £0.01	100%	100%
Healthcare Properties UK Limited	100	Ordinary £1	100%	100%
Healthcare Properties (Oxford) Limited	1	Ordinary £1	100%	100%
HCP Wellcare Holdings Limited	10,000	Ordinary £0.01	100%	100%
Healthcare Properties (Wellcare) Limited Healthcare Properties	1,000	Ordinary £100	100%	100%
(Wellcare) Limited	4,000,000	Preference £1	100%	Non-voting
HCP Wellcare Progressive Lifestyles Limited	1,000	Ordinary £1	100%	100%
HCP Community Support Services Limited	1	Ordinary £1	100%	100%
United Properties Holding Inc.	1,000	Ordinary	100%	100%
United Post Office Investments Inc.	100	Ordinary	100%	100%

The Company directly owns the shares of USIGH Limited.
All other subsidiaries are owned indirectly.

Corporate Governance Report

2. Annual general meeting of shareholders 2006

2.1 2005

At the annual general meeting of shareholders of the Company on 30 June 2005 significant changes to the corporate governance structure of the Company were made:

(i) The Company changed its name from "Regedo Holding AG" to "USI Group Holdings AG";

(ii) the Company transferred its registered office from Regensdorf to Zurich;

(iii) the purpose of the Company was changed;

(iv) the Company re-elected Armin Hilti and elected Dr Victor Lanfranconi, Dr Volkert Klaucke, Dr Robert Bider, Dr Doraiswamy Srinivas, William Vanderfelt and David Quint as members of the Board;

(v) the Company introduced a single class of registered shares with a par value of CHF 100 each: A shareholder may at any time request a confirmation of the number of registered shares held in his/her name. The shareholder is not entitled, however, to request the printing and delivery of certificates for registered shares ("Aktien mit aufgehobenem Titeldruck");

(vi) the Company adopted a new article pursuant to which an acquirer of any number of shares or voting rights shall not be obliged to make a mandatory offer pursuant to Article 32 of the Federal Act on Stock Exchanges and Securities Trading (hereinafter "SESTA") ("opting out");

(vii) the Company restricted the transferability of the shares;

(viii) the Company increased its share capital. The registered shares were paid up by means of a contribution in kind in the form of a transfer of shares of USI Group Holdings Limited (BVI). After completing the Reverse Acquisition USI Group Holdings Limited (BVI) became a wholly owned subsidiary of the Company.

2.2 2006

At the annual general meeting of shareholders of the Company on 22 May 2006 the following changes to the share capital were made:

(i) i) the Company approved a reduction in the par value of its shares by CHF 4.45 per share with the payments to shareholders made in August 2006;

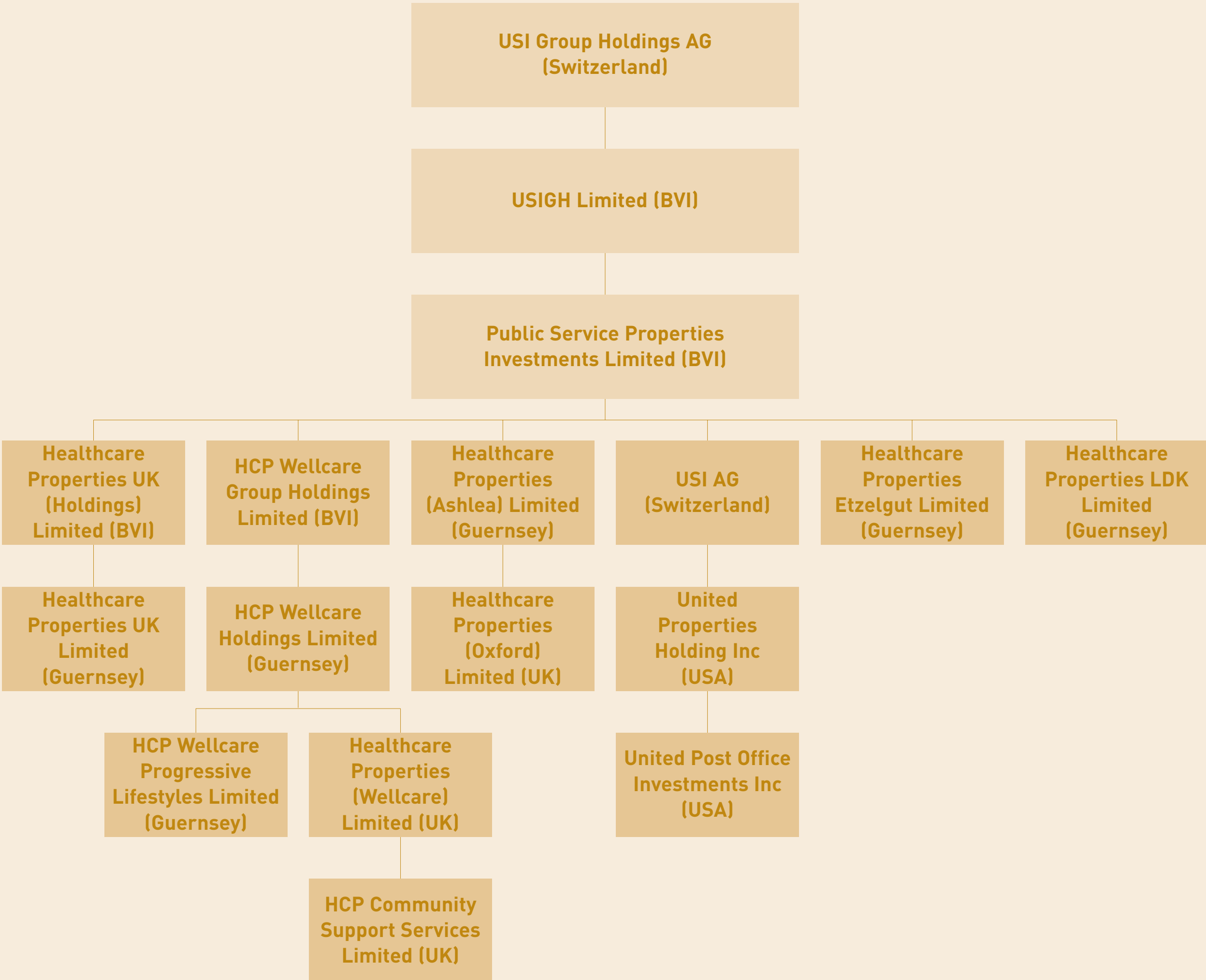
(ii) the Company approved an increase in authorized capital by 200,000 ordinary shares;

(iii) the Company approved the issuance of 381,370 shares of conditional capital.

3. Group structure and shareholders

3.1 Group structure

The Company indirectly owns various subsidiaries which are held through USI Group Holdings Limited (BVI) (altogether the "USI Group"). The USI Group structure looks as follows:



In February 2007 the issued share capital of United Properties Holdings Inc was transferred, at fair value, to Public Service Properties Investments Limited. On the same date, the issued share capital of USI AG was transferred, at fair value, to USI Group Holdings AG.

After 26 March 2007, USIGH Limited held 25.16% of Public Service Properties Investments Limited.

Corporate Governance Report

3.2 Significant shareholders

At 31 December 2006 the Company had following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 100	Percentage ownership of total equity capital and voting rights
USI Limited [1] Nerine Chambers, Road Town, Tortola, British Virgin Islands	462,074	59.39%
USI-Investors		
Equinox USI Ltd [2] c/o Herndon Plant Oakley Limited, One Shoreline Plaza, 800 North Shoreline, Suite 2200, South Tower, Corpus Christi, Texas 78401, USA	39,868	5.12%
Esquire Consolidated Limited [3] c/o Bachmann Trust Company Limited, PO Box 175, Frances House, Sir William Place, St. Peter Port, Guernsey, Channel Islands GY1 4HQ	56,948	7.32%
USI-USA II, Limited [4] 6273 Frank Avenue, N.W., North Canton, Ohio 44720 USA	45,002	5.78%
USI-USA I, Limited [5] 6273 Frank Avenue, N.W., North Canton, Ohio 44720 USA	35,221	4.53%
Other USI-Investors	13,352	1.72%
European Asset Value Fund 1 Boulevard Royal, L2449 Luxembourg	39,061	5.02%
Dr and Mrs Lanfranconi	1,706	0.22%
RP&C Guernsey PO Box 122, Helvetia Court,South Esplanade, GY1 4EE St Peter Port, Guernsey, Channel Island	1,705	0.22%
Other existing shareholders	83,067	10.68%
Total	**778,004**	**100%**

[1] USI Limited is owned by Dr Victor Lanfranconi, Beatrix Spaeti Lanfranconi (90%) and RP&C International (Guernsey) Ltd (10%).

[2] Candies Family Investment LLC holdings owns 40% of Equinox USI Ltd.

[3] Esquire Consolidated Ltd. is represented by Bachmann Trust Company Ltd., Guernsey, Channel Islands GY1 4HQ. In connection with an agreement between Esquire of 16 November 2004, USI Group Holdings Limited, USI Healthcare Investment Company Limited, USI Limited and RP&C International (Guernsey) Limited, USI Limited acts as nominee for Esquire. USI Limited is obliged to exercise the voting rights of Esquire in the same manner as the majority of Esquire, Dr Victor Lanfranconi, RP&C International (Guernsey) Limited and USI Limited decides.

[4] 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.

[5] 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.

4. Capital structure

4.1 Capital

The issued share capital of CHF 74,338,282 is divided into 778,004 fully paid up registered shares with a par value of CHF 95.55 each. All shares have the same voting rights.

4.2 Authorized and conditional capital

On 22 May 2006 the general meeting of shareholders resolved to increase the authorised share capital by 200,000 ordinary shares and approved the issuance of 381,910 shares of conditional capital.

4.3 Changes in capital

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 by way of contribution in kind (see section 2 viii).

On 11 August the Company reduced the par value of its issued shares from CHF 100 to CHF 95.55 and issued 19,095 new shares at CHF 179.00 per share.

4.4 Shares and participation certificates

The Company has not issued any share or participation certificates.

4.5 Profit sharing certificates

The Company has not issued any profit sharing certificates.

4.6 Limitation on transferability and nominee registration

The Board may refuse to enter an acquirer of registered shares in the share register as a share-holder with the right to vote, if the holdings of the shareholder together with his shares already registered exceed 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,

Corporate Governance Report

as well as all persons, entities and partnerships that are acting in concert with a view to circumvent the percentage limit, shall be deemed as one person.

Based on separate regulations or individual agreements the Board can register nominees as shareholders with the right to vote.

4.7 Convertible bonds and warrants/options

The Company has not issued any convertible bonds, warrants or options, other than mentioned in Sections 4.7.1, 4.7.2 and 4.7.3.

4.7.1 Warrants issued to USI-USA LLC

In 2002, in consideration of USI-USA LLC (a company incorporated in Ohio and unaffiliated with the USI Group) posting a letter of credit of USD 4'000'000 as collateral for a USD 4'000'000 loan from Nationwide Insurance to Healthcare Properties (Ashlea) Limited, a member of the USI Group, to part fund the purchase of a UK Property, Healthcare Properties (Ashlea) Limited agreed to procure the issue of warrants to USI-USA LLC to purchase shares in USI Group Holdings Limited.
The warrants are exercisable at any time during the two-year period following completion of a public offering or flotation of the shares in USI Group Holdings Limited at a per share exercise price equal to the offering price of the shares in the flotation. The number of shares subject to such warrants is determined by converting USD 4'000'000 into Swiss Francs at the exchange rate in effect on 6 December 2002 or the date the Reverse Merger became effective, i.e. 1 July 2005 (whichever results in the higher number) and dividing that result by the per share offering price in the flotation, that is CHF 43.50 per share. The Reverse Merger qualifies as a flotation for the purposes of these warrants. USI Group Holdings Limited is seeking to amend the terms of the warrants, with the agreement of USI-USA LLC, pursuant to which USI Group will issue USI-Shares to USI-USA LLC which will then exchange these for registered shares of the Company with a nominal value of CHF 100 each by way of a contribution in kind on the basis of an exchange ratio of 1 Company share for 3.722 USI-Shares. The warrants are exercisable for two years from 1 July 2005 (the effective date of the Reverse Merger). Approximately 37'000 Shares would have to be issued under the warrants issued to USI-USA LLC, subject to adjustment in case of dilution.

4.7.2 Warrants Issued in Connection with CHF 7'000'000 4% Senior Unsecured pre-IPO Notes Due 2011

In February 2004, USI Group Holdings Limited issued CHF 7'000'000 of 4% senior unsecured pre-IPO notes due 2011 ('Notes'). Each holder of the Notes is granted a warrant right to purchase USI-Shares on payment of the subscription price for each share. USI Group Holdings Limited is seeking the approval of the noteholders to amend the terms of the warrant rights granted in connection with the Notes to entitle the noteholders to purchase registered shares of the Company with a nominal value of CHF 100 each instead of USI-Shares. These warrant rights shall have the following characteristics:

The number of shares to be purchased per warrant right means the number of shares of the Company calculated by dividing CHF 1'000 by the subscription price. The subscription price will be CHF 152.20. The subscription price is subject to adjustment in the event that after 1 July 2005, the Company makes dividend payments or other distributions on its shares in shares, issues rights, warrants or options to subscribe or purchase shares below market price or subdivides its shares into a greater number of shares.

The holder may use proceeds from the redemption of its Notes to fund the aggregate subscription price. Warrant rights are not exercisable in respect of fractions of a share.

Holders of Notes have the right to require redemption of the Notes on 31 January 2007 at a 15% premium. USI Group also has the right to redeem the Notes in certain circumstances.

So long as any warrant rights are exercisable (i) the Company may not issue securities by way of a capitalisation issue of fully paid shares to holders of shares unless an appropriate adjustment is made in the terms of the warrant rights; (ii) without prejudice to the Company's rights to issue (a) preference share capital ranking as regards participation in profits and assets in priority to the shares and (b) further shares ranking pari passu with the Shares and save as provided herein, the Company may not in any way, to the detriment of the holders of warrant rights, adversely vary, modify or abrogate the rights attached to its existing shares as a class without the approval of the majority holders whose warrant rights have not been exercised at the date of such approval; (iii) the Company may not reduce its share capital (except for a reduction not involving any payment to shareholders, a reduction pursuant to which the Company makes a tax efficient distribution to its shareholders, or on redemption of redeemable shares or for purchases of share capital in accordance with authorities conferred by law); and (iv) the Company must keep available for issue sufficient authorised but unissued share capital to satisfy in full all warrant rights remaining exercisable (including those arising on any adjustment).

Approximately 46'000 registered shares with a nominal value of CHF 100 each of the Company would have to be issued under the warrants attaching to the Notes, subject to adjustment in case of dilution.

4.7.3 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 ("Bonds"). 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.

Approximately 73,170 registered shares with a nominal value of CHF 100 each of the Company would have to be issued if the under terms of these bonds.

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5. Board

The members of 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	2007
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	2007
David Quint	USA/GB	member	2005	2009

5.1 Members of the Board

Dr iur Victor Lanfranconi (65), 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 (56), Director of Investor Relations and Corporate Secretary, is Chief Operating Officer and a Director of RP&C International Inc (hereinafter "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 Colombia Business School. He holds a doctorate in finance and economics.

Mr. David Quint (56) 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.

Mr. Armin Hilti (61) was Chief Financial Office and member of the management of Scana Lebensmittel AG, Regensdorf (Switzerland), a former subsidiary of the Company. As former Chief Executive Officer of the Company, Mr. Hilti substantially contributed to the success of the Company and its former Swiss and Belgian subsidiaries.

Mr. William W. Vanderfelt (63) is a former managing director of the Petercam Group, Belgium, the leading independent member firm of Euronext, Brussels. He serves as a director of several companies including Compagnie Immobiliere de Belgique, Renaissance US Growth Investment Trust PLC and US Special Opportunities Trust PLC He is also a director of RP&C.

Dr Robert Bider (59) has more than 30 years of experience in the healthcare industry. He joined the Hirslanden Group in 1985 as Managing Director of Clinic Hirslanden and in 1990 he became CEO of the Hirslanden Group. The Hirslanden Group is the largest private acute care hospital group in Switzerland and is ranked amongst the top hospital groups in the world. Dr Bider became a Board Member of Hirslanden in June 2001 and of Hirslanden Investments S.A., Luxembourg in February 2003. Since, May 2005, Dr Bider has served as a Board Member of Grand Hotels Bad Ragaz. Dr Bider holds a PhD in Technical Sciences and a Master in Industrial Management (MIM) from the Federal Institute of Technology, Zurich.

Dr Volkert Klaucke (63) 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.

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.

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5.2 Cross-involvement

The following directors are also directors of companies listed on the stock exchanges noted below:

Director	Company name	Stock Exchange
Mr. David Quint	Global Energy Development, PLC	AIM, London
Mr. William Vanderfelt	Compagnie Immobiliere de Belgique	Euronext,Belgium
	Renaissance US Growth and Income Trust	London
	Securinfor	Paris
	US Special Opportunities Trust	London
	Vietnam Opportunity Fund	AIM, London
	Apace Media Plc	AIM, London

5.3 Elections and terms of office

Pursuant to the articles of incorporation (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. Members elected by a by-election step in the tenure of office of their predecessors. Members of the Board may be re-elected after their tenure of office expires.

The remaining term of office for each member of the Board is disclosed above.

At the Annual General Meeting held on 22 May 2006, Mr. David Quint's re-election for a further period of 3 years was approved.

Dr. D. Srinivas' first period as a director expired on 30 June 2006. Dr. Srinivas' re-election for a period of 3 years will be proposed at the Annual General Meeting of the Company due be held on 18 May 2007.

5.4 Internal organizational structure

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 shall appoint a chairman and, at its discretion, a vice chairman. The Board shall choose the secretary, who may or may not be a member of the Board. Re-election of any member is permitted for any position.

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 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.

Audit Committee

The responsibilities of the Audit Committee are determined in a special Audit Committee Charter. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

(i) monitoring and assessing the integrity of the financial statements;

(ii) monitoring the financial policies;

(iii) ensuring the compliance with legal and regulatory requirements;

(iv) monitoring the qualifications, independence and performance of the external audit.

5.4.1 Nomination and Compensation Committee

The Nomination and Compensation Committee recommends the selection of candidates for the Board and its committees, plans for the succession of directors, and ensures that directors receive the appropriate training to fulfill their obligations. The committee also proposes appointments, approves and establishes all compensation plans, policies and programs relating to compensation and benefits for directors and direct employees. The responsibilities of the Nomination and Compensation Committee are determined in a special Nomination and Compensation Committee Charter.

5.5 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:

(i) the adoption of any stock option plan and the issuance of shares to option holders on exercise of such options;

(ii) the formation, acquisition, merger, sale and/or liquidation of subsidiaries with a value in excess of CHF 2.25 million;

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(iii) the acquisition, sale and hypothecation of assets with a value in excess of CHF 2.25 million;

(iv) the initiation and/or settlement of judicial and administrative proceedings or disputes of any nature with a value in excess of CHF 100'000;

(v) business decisions of a long-term nature or which involve unusual or extraordinary risks;

(vi) the approval of expenditures or obligations 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;

(vii) the entry into any transaction, which is not in the ordinary course of business of the Company including sale or leasing of the Company's assets in excess of CHF 2.25 million

(viii) 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;

(ix) 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 (Articles 739 et seq. CO);

(x) 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;

(xi) regarding subsidiaries of the Company:

(a) the execution, alteration or termination of articles of association;

(b) the voluntary liquidation, merger or continuation of a subsidiary after the occurrence of any matter requiring its liquidation;

(c) the approval of the annual accounts and the distribution of dividends or other distributions to shareholders or the exercise of any other shareholders' rights;

(d) 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;

(e) the resolution of matters which, pursuant to law or the articles of association, require the approval of the shareholders.

(xii) 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.;

(xiii) the grant of pension entitlements to any employees;

(xiv) any decisions concerning the appointment of the management;

(xv) borrowing in excess of CHF 500'000;

(xvi) 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;

(xvii) the approval of any transaction between the Company and members of the Board;

(xviii) the adoption and/or alteration of the Regulations.

In accordance with Article 716b CO the Board has delegated the management to a third party (see section 6).

6. Senior management

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

RP&C was appointed as the USI Group's exclusive manager, adviser and administrator under the management agreement between the Company and RP&C dated as of 1 July 2005 (the "Management Agreement"). RP&C also is responsible for identifying, advising on the acquiring, financing and monitoring USI'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.

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6.1 Members of the senior management of RP&C

Mr. David Quint (see section 5)

Dr Doraiswamy Srinivas (see section 5)

Mr. Ralph Beney (46), Chief Financial Officer of the Company, the Finance Director of RP&C and has advised the USI Group since 1992 and is the nominated finance officer of the Company. He 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 management 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, an associate member of the Securities Institute and a member of the Institute of Directors in the U.K.

Mr. Richard Borg (40), the General Counsel of RP&C and the Company, 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 Oxford University.

Mr. Simon Eagles (41), joined RP&C in 2003 having formerly served as head of convertible bond origination for WestLB and HSBC Investment Bank. Mr. Eagles focuses on private placements of equity linked instruments and has previously arranged convertible bonds for a number of issuers including National Grid, Compass Group, Preussag/TUI, EM.TV and LUKOil. He is a Chartered Accountant and a graduate of the University of Manchester.

Mr. David Quint Jnr (28) is a director of RP&C International Ltd and serves as a director, President and Principal of RP&C International (Securities) Inc. Mr. Quint is primarily engaged in private placements and structured finance activities. He holds a BSc degree in Physics from the Imperial College of Science, Technology and Medicine, and a Masters of Finance from the London Business School.

6.2 Management contracts

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 1% of the consolidated gross asset value of the Company as at 31 December 2003 and 1% of the gross acquisition cost and first revaluation of assets acquired after 1 January 2004 (for details, refer to the note 26 of the consolidated financial statements).

For services, which he provides in connection with RP&C's activities under the Management Agreement, Dr Victor Lanfranconi is entitled to receive one third of the fees payable to RP&C by the Company pursuant to the Management Agreement.

6.2.1 Duties of RP&C as manager and adviser

(i) 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;

(ii) monitoring operation of the assets, liaising with the operators of the assets, and reporting to the Board with respect thereto;

(iii) advising the Company generally in connection with conditions in the capital markets;

(iv) 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;

(v) advising generally on the holding of investments and assets;

(vi) advising and instructing the administrator on administrative requirements in order to implement the Board's decision;

(vii) co-operating with the custodian with respect to the performance of its duties;

(viii) 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;

(ix) 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;

(x) 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;

(xi) attending quarterly meetings of the Board for the purposes, inter alia, of discussing the information provided pursuant to clause x); and

(xii) providing the Company with such additional advice as the Board shall require for the purposes of properly assessing its assets and investments.

(xiii) subject to the terms of this 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.

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(xiv) 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;

(xv) as will enable the Company to publish its yearly and half-yearly report and accounts; and

(xvi) 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.

6.2.2 RP&C's authority and obligations

Subject to the prior approval of the Board, RP&C shall have 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:

(i) to issue orders and instructions with respect to the investments and assets;

(ii) 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;

(iii) 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

(iv) 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.

6.2.3 Duties of RP&C as administrator

(i) maintaining and establishing necessary accounting records of the USI Group;

(ii) 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 memorandum of association and the Articles;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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;

(viii) 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;

(ix) 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;

(x) preparing and circulating draft minutes of meetings for approval by the Board;

(xi) 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;

(xii) preparing tax computations of the USI Group at the end of each financial year and submitting them to the auditors and appropriate taxation authorities;

(xiii) 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

(xiv) 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.

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7 Compensations, shareholdings and loans

7.1 Content and method of determining the compensation and [the shareholding programs]

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

7.2 Compensations for acting members of governing bodies

The non-executive directors of the Board receive a flat fee of CHF 30'000 per annum.
Dr Lanfranconi does not receive a flat fee but is compensated under the Management Agreement (see section 6) and receives compensation for office secretarial and related expenses and provision of a car in the amount of CHF 208,460 for the year ended 31 December 2006.

Dr Doraiswamy Srinivas and David Quint are members of the Board of the Company, RP&C and various members of the USI Group. William Vanderfelt is a member of the Board of the Company and RP&C and receives a director's fee at the rate of CHF 30,000 per annum. RP&C is entitled to receive fees from the Company (see section 6).

7.3 Share ownership

Dr Victor Lanfranconi and Mrs Lanfranconi own 2'910'000 shares (89.98%) of USI Limited, which owns 59.39% of the share capital and voting rights of the Company. Dr Victor Lanfranconi and Mrs Lanfranconi also directly own 0.22% of the share capital and the voting rights of the Company. RP&C Guernsey owns 324'000 shares (10.02%) of USI Limited and also directly owns 0.22% of the share capital and voting rights of the Company. RP&C Guernsey is wholly owned by RP&C. David Quint, Dr Srinivas, an affiliate of William Vanderfelt, Ralph Beney, Richard Borg and David Quint Jnr own 13.63%, 7.35%, 7.62%, 2.69%, 2.69% and 4.66% of the issued share capital of RP&C, respectively. RP&C Guernsey.

7.4 Options

The Board adopted a stock option plan on 4 July 2005. The purpose of the plan is to provide directors and consultants 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.

7.5 Loans to members of governing bodies

There were no loans to any member of the governing board.

7.6 Highest total compensation

The highest total compensation paid to a director, including the share of management and transaction fees was Chf 2,095,653.

8 Shareholders' participation

8.1 Voting-rights, representation restrictions and inscriptions in the share register
Each share has one vote. The board of directors 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 as one person.

8.2 Statutory quorums
Resolutions of the general meeting of shareholders are passed by the majority set forth applicable legal provisions.

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

8.4 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.

9 Changes of control and defense measures

9.1 Duty to make an offer
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 SESTA, irrespective of the number of voting rights conferred by the shares acquired ("opting out").

9.2 Clauses on changes of control
There is no "change of control" clause regarding members of the Board.

10 Auditors
PricewaterhousCoopers AG, Zürich

10.1 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 2006 financial year by the Annual General Meeting held on 22 May 2006.

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The Lead Engagement Partner, Patrick Balkyani, responsible for the existing auditing mandate took up office in respect of the financial year ended 2006.

The Board of Directors proposes to the Annual General Meeting due to be held on 18 May 2007 to re-elect PricewaterhouseCoopers AG as Statutory Auditors and as Group Auditors for the 2007 financial year. In the case of a re-election of PricewaterhouseCoopers AG for the 2007 financial period, the responsible Lead Engagement partner for the existing auditing mandate will be the same as for the 2006 financial year.

10.2 Auditing fees

The total fees for auditing the 2006 consolidated financial statements and all group companies are estimated to be CHF 0.5 million, of which CHF 0.1 million had been invoiced at the date of this report.

10.3 Additional fees

Additional fees of CHF 0.3 million were charged for tax, audit of financial statements for the six month period ended 30 June 2006 and other advice.

10.4 Supervisory and control instruments pertaining to the audit

The Board of Directors and the Audit Committee liaises directly with the Statutory Auditors regarding the annual audit work to be carried out and discusses the results of such audits. On request, representatives of the Statutory Auditors attend meetings of the Board of Directors in which such matters are discussed (organisation of the audit committee, refer to 5.5.1).

11 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.

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

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

SWX Swiss Exchange Symbol: USIN
Security Number: 227.101
ISIN: CH0002271010

USI Group Holdings AG
Bahnhofstrasse 106
Postfach 6781
8023 Zürich, Switzerland
T: +41 44 212 4004
F: +41 44 211 4638
www.usigroupholdings.ch

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