



USI[®]

USI Group Holdings AG

**Annual Report
2005**



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Key Figures

KEY FIGURES

	Unit	2005	2004
Key financial figures			
Rental income	CHF 1,000	27,378	22,870
Net changes in fair value adjustment on investment property	CHF 1,000	30,137	9,418
Negative goodwill	CHF 1,000	1,207	13,489
Operating profit before tax excluding fair value adjustments and negative goodwill	CHF 1,000	22,005	16,882
Net income	CHF 1,000	23,212	21,404
Net income attributable to equity holders	CHF 1,000	23,212	18,201
Total assets	CHF 1,000	388,903	304,930
Shareholders' equity	CHF 1,000	115,978	74,832

KEY PORTFOLIO FIGURES

	Unit	2005	2004
Key financial figures			
Number of investment properties	Number	178	170
Investment properties (IAS40)	CHF 1,000	323,237	242,708
Leased usable space	%	100	100

PER SHARE FIGURES

	Unit	2005	2004
Key financial figures			
Weighted average number of shares	Number	719,996	449,120
Earnings per share (EPS) ¹	CHF	32.24	40.53
EPS excluding fair value adjustments on investment properties and negative goodwill and deferred taxation thereon ¹	CHF	5.13	(0.38)
Net asset value per share ²	CHF	151.84	122.61
Nominal value reduction per share	CHF	4.45 ³	Nil
Share price high	CHF	495.00 ⁴	199.00
Share price low	CHF	150.00	120.00
Share price end of period	CHF	199.70	155.00

¹ Using weighted average number of shares for the period and including the results of USI Group Holdings Limited from 1 January 2004 and before any nominal value reduction.

² Using the number of shares in issue at the financial year end, including those shares in issue for USI Group Holdings Limited at 31 December 2004.

³ Proposal to the Annual General Meeting on 22 May 2006.

⁴ The highest share price since the reverse acquisition on 30 June 2005 was CHF 220.00 per share.

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Directors and Advisors

DIRECTORS

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

AUDITORS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland

COMPANY SECRETARY

Dr Doraiswamy Srinivas

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



Chairman's Statement

for the year ended 31 December 2005

The Company is pleased to report its financial results for the year ended 31 December 2005. Operating profit, including fair value adjustments on investment property and negative goodwill, for 2005 was stated at CHF 53.3 million compared to CHF 39.8 million for 2004.

Profit after taxation was reported at CHF 23.2 million compared to CHF 21.4 million 2004, after deductions for deferred tax on fair value gains on investments and on acquisitions of CHF 18.3 million and CHF 5.3 million, respectively. Profit attributable to equity holders of the Company, after minority interests, was reported at CHF 23.2 million compared to CHF 18.2 million for the same period in 2004.

Gross assets at 31 December 2005 were stated at CHF 388.9 million compared to CHF 304.9 million at 31 December 2004. Shareholders funds were stated at CHF 116.0 million compared to CHF 74.8 million at 31 December 2004.

The healthcare sector in the United Kingdom continues to be very strong with a number of large corporate transactions widely reported in the financial press. These transactions have lifted valuations in the sector as a whole. The group's investment portfolio continues to perform well as it seeks to expand its base within continental Europe. In the UK, the group is embarking on a capital expenditure programme to expand and enhance the capacity of its existing properties which, subject to planning permission, the Company hopes to increase capacity by up to 10% over a period of time.

The Company is delighted to confirm that its share capital was significantly expanded effective 30 June 2005 by the issuance of 739,820 new shares in exchange for the shares of USI Group Holdings Limited, a company incorporated in the British Virgin Islands. The business combination is accounted for as a reverse acquisition in accordance with IFRS 3. The new shares were admitted, effective 27 July 2005, to the SWX exchange in Zurich, where they have been reclassified under the real estate segment. The Company's board of directors was also expanded on 30 June 2005. Full details of the Company's board members and other relevant information are included in the listing particulars available from the Company's website at www.usigroupholdings.ch.

USI Group Holdings AG

Dr iur V. Lanfranconi (Chairman)

Approved by the board: 30 March 2006

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Directors' Report

for the year ended 31 December 2005

The directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2005.

PRINCIPAL ACTIVITY

The Company's principal activity is that of an investment holding company. The consolidated income statement is set out on page 9. The activities of the subsidiaries are that of investment property companies or intermediate financing and holding companies.

DIRECTORS

The directors of the Company at 31 December 2005, all of whom have been directors for the whole of the year then ended unless otherwise indicated were:

Dr. iur Victor Lanfranconi

(Executive Chairman)
appointed 30 June 2005

Dr. Robert Bider

(Non-Executive)
appointed 30 June 2005

Mr Armin Hilti

(Executive *until 30 June 2005*
non-executive from 30 June 2005)

Dr. Volkert Klaucke

(Non-Executive)
appointed 30 June 2005

Mr William Vanderfelt

(Non-Executive)
appointed 30 June 2005

Mr David Quint

(Executive)
appointed 30 June 2005

Dr. Doraiswamy Srinivas

(Executive)
appointed 30 June 2005

Dr. M. Bruppacher

(Non-Executive Chairman)
resigned 30 June 2005

Mr Kaspar Hilti

(Non-Executive)
resigned 30 June 2005

SECRETARY

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

AUDITORS

The appointed auditors are PricewaterhouseCoopers AG.

DIRECTORS' INTERESTS

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

DIRECTORS	31 Dec 2005	31 Dec 2004
Dr. iur V. Lanfranconi	407,170	Nil
Mr Robert Bider	Nil	Nil
Mr Armin Hilti	2,288	Nil
Dr. Volkert Klaucke	Nil	Nil
Mr William Vanderfelt	10,064	Nil
Mr David Quint	Nil	Nil
Dr. Doraiswamy Srinivas	Nil	Nil

The company has in issue 46,813 (2004 – Nil) 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.

DEFERRED TAXATION

As explained in note 2.2, in 2004 the directors became aware that IAS 12 (Income Taxes) requires accounting for deferred taxation on fair value gains on investment property, including the difference between fair value and the tax base of investment properties arising on business combinations. Accordingly, note 2.2 reflects a restatement of the comparative provision for deferred taxation even though the directors are of the opinion that the deferred tax liabilities will not crystallise on the basis that any sale of investment property would be conducted in a tax efficient manner. The amount of deferred

taxation provided in respect of these fair value gains and on business combinations reduced shareholders' funds for the year ended 31 December 2005 by CHF 18.3 million (2004 – CHF 5.3 million). The cumulative effect has resulted in shareholders' funds being reduced by CHF 29.9 million.

By order of the board



Chairman

Date: 30 March 2006

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
 Birchstrasse 160
 8050 Zürich
 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 (income statement, balance sheet, cash flow statement, statement of changes in shareholders' equity and notes), pages 9 to 59 and 65 to 67, of USI Group Holdings AG for the year ended 31 December 2005.

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



Stefan Gerber
 Zurich, 30 March 2006



Patrick Balkanyi

Consolidated Income Statement

for the year ended 31 December 2005

	Note	2005 CHF	2004 CHF
Revenue	7	27,377,552	22,870,215
Net gain from fair value adjustment on investment property	12	30,136,997	9,417,780
Negative goodwill	25	1,207,024	13,489,490
Administrative expenses	8	(7,114,863)	(7,370,805)
Interest income		1,742,481	1,382,505
Operating profit		53,349,191	39,789,185
Finance costs	9	(16,884,679)	(15,365,352)
Profit before income tax		36,464,512	24,423,833
Income tax expense	21	(13,252,449)	(3,020,010)
Profit for the year		23,212,063	21,403,823
Attributable to:			
Equity holders of the Company		23,212,063	18,201,210
Minority interests	27	-	3,202,613
		23,212,063	21,403,823
Basic earnings per share (CHF per share)	10	32.24	40.53
Diluted earnings per share (CHF per share)	10	26.78	33.25

The notes on pages 14 to 59 form part of these financial statements.

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Consolidated Balance Sheet

for the year ended 31 December 2005

	Note	2005 CHF	2004 CHF
ASSETS			
Non-current assets			
Investment property	12	323,237,485	242,708,334
Intangible assets	13	17,143,980	17,005,560
Loans and receivables	14	9,853,101	9,487,140
Deferred income		13,124,342	7,613,579
Derivative financial instruments	16	-	414,391
		363,358,908	277,229,004
Current assets			
Receivables and prepayments	17	9,316,030	8,809,290
Cash		15,679,834	18,891,719
Derivative financial instruments	16	548,212	-
		25,544,076	27,701,009
Total assets		388,902,984	304,930,013
EQUITY			
Capital and reserves			
Share Capital	18	76,382,000	28,678
Share Premium	18	-	46,130,684
Fair value hedging reserve		(2,420,044)	(110,325)
Translation reserve		2,373,980	655,601
Retained Earnings		39,642,505	28,127,022
		115,978,441	74,831,660
Minority interests	27	-	-
Total equity		115,978,441	74,831,660

	Note	2005 CHF	2004 CHF
LIABILITIES			
Non-current liabilities			
Borrowings	19	197,386,773	190,292,611
Derivative financial instruments	16	2,968,256	1,159,899
Deferred income tax	20	34,010,158	13,643,188
Other liabilities		-	401,362
		234,365,187	205,497,060
Current liabilities			
Borrowings	19	34,774,567	13,061,070
Trade and other payables	22	89,107	843,042
Current income tax liabilities		188,554	585,000
Accruals	23	3,507,128	10,112,181
		38,559,356	24,601,293
Total liabilities		272,924,543	230,098,353
Total equity and liabilities		388,902,984	304,930,013

The consolidated financial statements on pages 9 to 59 were approved by the board of directors on 30 March 2006 and were signed on its behalf by: Dr. iur V. Lanfranconi, Chairman and Mr. Armin Hilti, Director.

The notes on pages 14 to 59 form part of these financial statements.

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Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 CHF	2004 CHF
Cash flow from operating activities			
Cash generated from operations	24	12,412,823	7,023,778
Interest paid		(17,176,796)	(11,355,550)
Tax paid		(1,448,726)	-
Net cash used by operating activities		(6,212,699)	(4,331,772)
Cash flow from investing activities			
Business Combination	25	(29,512,666)	(68,347,430)
Purchase of investment property	12	(772,061)	(9,661,340)
Cash paid for loans and receivables	14	-	(4,572,970)
Interest received		1,837,304	1,095,394
Net cash used in investing activities		(28,447,423)	(81,486,346)
Cash flow from financing activities			
Proceeds from borrowings		51,529,773	91,861,029
Repayments of borrowings		(33,648,863)	(1,493,841)
Conversion of debt into equity		10,926,749	-
Capital increases	18	4,900,000	16,006,432
New issue costs	18	(2,765,376)	(3,304,295)
Net cash generated by financing activities		30,942,283	103,069,325
(Decrease)/Increase in cash and cash equivalents		(3,717,839)	17,251,207
Movement in cash and cash equivalents			
At start of year		18,891,719	1,957,746
(Decrease)/Increase		(3,717,839)	17,251,207
Foreign currency translation adjustments		505,954	(317,234)
At end of year		15,679,834	18,891,719

The notes on pages 14 to 59 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2005

Attributable to equity holders of the Company

	Note	Share Capital CHF	Share Premium CHF	Fair value hedging reserve CHF	Translation reserve CHF	Retained earnings CHF	Minority Interest CHF	Total Equity CHF
Balance as of 1 January 2004 as previously stated		22,399	11,039,433	586,624	202,370	28,700,462	1,583,819	42,135,134
Changes in accounting policies	2.2	-	17,572,172	-	(1,091,312)	(18,774,650)	948,385	(1,345,432)
Balance as of 1 January 2004 as restated		22,399	28,611,605	586,624	(888,942)	9,925,812	2,532,204	40,789,702
Cash flow hedges – net		-	-	(696,949)	-	-	-	(696,949)
Foreign currency translation		-	-	-	1,544,543	-	-	1,544,543
Net income/(expense) recognised directly in equity		22,399	28,611,605	(110,325)	655,601	9,925,812	2,532,204	41,637,296
Profit for the year		-	-	-	-	18,201,210	3,202,613	21,403,823
Total recognised income for 2004		22,399	28,611,605	(110,325)	655,601	28,127,022	5,734,817	63,041,119
Issue of share capital (US\$)		4,419	11,786,122	-	-	-	-	11,790,541
Conversion of minority interests to equity		1,860	5,732,957	-	-	-	(5,734,817)	-
Balance as of 31 December 2004		28,678	46,130,684	(110,325)	655,601	28,127,022	-	74,831,660
Balance as of 1 January 2005		28,678	46,130,684	(110,325)	655,601	28,127,022	-	74,831,660
Cash flow hedges – net	16	-	-	(2,309,719)	-	-	-	(2,309,719)
Foreign currency translation		-	-	-	1,718,379	-	-	1,718,379
Net income/(expense) recognised directly in equity		28,678	46,130,684	(2,420,044)	2,373,980	28,127,022	-	74,240,320
Profit for the year		-	-	-	-	23,212,063	-	23,212,063
Total recognised income for 2005		28,678	46,130,684	(2,420,044)	2,373,980	51,339,085	-	97,452,383
Issue of share capital (US\$)	18	36,215	25,313,465	-	-	-	-	25,349,680
Capital raising fees (US\$)	18	-	(2,765,376)	-	-	-	-	(2,765,376)
Reverse acquisition	3	(64,893)	(68,678,773)	-	-	(8,264,089)	-	(77,007,755)
Issue of share capital (Regedo)	18	73,982,000	-	-	-	-	-	73,982,000
Existing shares (Regedo)	18	2,400,000	-	-	-	-	-	2,400,000
Dividends		-	-	-	-	(3,432,491)	-	(3,432,491)
Balance as of 31 December 2005		76,382,000	-	(2,420,044)	2,373,980	39,642,505	-	115,978,441

The notes on pages 14 to 59 form part of these consolidated financial statements

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Notes to the Consolidated Financial Statements

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 2005 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 2004 except for the application of reverse acquisition accounting as explained in note 3 below.

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 Group adopted IFRS to enhance the international comparability of its financial statements. 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 Group has adopted early the following IFRSs, which are relevant to its operations:

IAS 1 (revised 2003)

Presentation of Financial Statements [Adopted 2003]

IAS 8 (revised 2003)

Accounting Policies, Changes in Accounting Estimates and Errors [Adopted 2004]

IAS 10 (revised 2003)

Events after the Balance Sheet Date [Adopted 2004]

IAS 17 (revised 2004)

Leases [Adopted 2004]

IAS 21 (revised 2003)

The Effects of Changes in Foreign Exchange Rates
[Adopted 2003]

IAS 23 (revised 2004)

Borrowing Costs [Adopted 2004]

IAS 24 (revised 2004)

Related Party Disclosures [Adopted 2004]

IAS 27 (revised 2003)

Consolidated and Separate Financial Statements
[Adopted 2003]

IAS 32 (revised 2003)

Financial Instruments: Disclosure and Presentation
[Adopted 2003]

IAS 33 (revised 2003)

Earnings per Share [Adopted 2004]

IAS 34 (revised 2004)

Interim Financial Reporting [Adopted 2004]

IAS 36 (revised 2004)

Impairment of Assets [Adopted 2004]

IAS 38 (revised 2003)

Intangible Assets [Adopted 2004]

IAS 39 (revised 2003)

Financial Instruments: Recognition and
Measurement [Adopted 2003]

IAS 40 (revised 2003)

Investment Property [Adopted 2003]

IFRS 2 (issued 2003)

Share-based Payment [Adopted 2004]

IFRS 3 (issued 2004)

Business Combinations [Adopted 2004]

The following standards are not considered to
have a material effect on the group:

IAS 2 (issued 2003)

Inventories

IAS 16 (issued 2003)

Property, Plant and Equipment

IAS 28 (issued 2003)

Investments in Associates

IAS 31 (issued 2003)

Interests in Joint Ventures

IFRS 4 (issued 2004)

Insurance Contracts

IFRS 5 (issued 2004)

Non-current Assets

The early adoption of IAS 1, 8, 10, 17, 21, 23,
24, 27, 32, 33, 34, 36, 38, 39 and 40 did not
result in substantial changes to the Group's
accounting policies.

The International Accounting Standards
Board and the IFRIC have issued the following
standards/interpretations which are not yet
effective:

IFRS 6

Exploration for and evaluation of mineral resources

IFRS 7

Financial instruments: Disclosures, and a
complementary amendment to ISA 1, Presentation
of Financial Statements – Capital Disclosures

IFRIC 4

Determining whether an arrangement contains
a lease

IFRIC 5

Rights to interests arising from decommissioning,
restoration and environmental rehabilitation funds

IFRIC 6

Liabilities arising from Participating in a Specific
market

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 7 and the amend-
ment to IAS 1 and concluded that the main
additional disclosures will be the sensitivity
analysis to market risk and the capital disclo-
sures required by the amendment of IAS 1.

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Notes to the Consolidated Financial Statements

The early adoption of IFRS 2, IFRS 3 and changes in accounting policies have resulted in:

	2005 CHF	2004 CHF
Increase/(decrease) in basic earnings per share	-	8.08
Increase/(decrease) in diluted earnings per share	-	6.62
Increase in profit for the year	-	12,920,563
Increase in intangible assets	-	12,920,563

See note 2.2 for detail.

2.2 Restatement of comparative amounts

The Directors restated the comparative amounts to reflect the following changes:

Share based payments

During 2004, the Directors changed the accounting policy for Share-based payments.

During 2003 the Ultimate Controlling Party exchanged a Swiss investment property for shares in USI Group Holdings Limited. In connection with this transaction, an amount of CHF 17,572,171 has been transferred from the 2003 income statement to Share Premium, being the fair value adjustment to cost of the property contributed. The effect of this adjustment on Net Assets and Shareholders' Equity is nil, however, the opening 2004 Retained Earnings has reduced by CHF 17,572,171 and the opening 2004 Share Premium increased by CHF 17,572,171.

Valuation of investment properties

During 2004, the directors noted that the fair valuation of investment property was stated net of transaction costs it expects to incur on sale or other disposal, which is not in accordance with IAS 40 (revised 2003). The cumulative effect on Profit and Net Assets prior to 2004 of this adjustment was CHF 3,136,302 which has been adjusted against the opening Retained Earnings in the Consolidated Statement of Changes in Shareholders' Equity. As a result of these amendments the 2004 opening balance of minority interests has increased by CHF 948,385.

Deferred taxation

As a result of the above adjustment, and the required applications of IAS 12 Income Taxes, the Directors have provided for deferred taxation on the investment properties held. Consequently, the 2004 opening Taxation liability has increased by CHF 4,909,488 and Profit for the year ended 31 December 2004 has reduced by the same amount.

Accounting for lease income on a straight line basis

During 2004, the directors noted that lease income should be recognised on a straight line basis taking into account the minimum increase implicit in the leases in accordance with IAS 17 (Revised 2003). Consequently, the cumulative effect on opening 2004 Net Assets of this adjustment was a reclassification of CHF 2,063,327 which has been deducted from the fair value of investment property. Deferred income and receivables have been increased by the same amount. As a result of these adjustments, the Directors have provided for deferred taxation on the total of deferred income. Consequently, the cumulative effect on 2004 opening Profit and Net Assets was CHF 618,998 which has been adjusted against the opening Retained Earnings in the Consolidated Statement of Changes in Shareholders' Equity.

Translation from the functional to presentation currency

During 2004, the Directors noted that net changes in fair value adjustments due to exchange differences on investment property should be recognised through the translation reserve in shareholders' equity and not as previously reported through the income statement. Consequently, the opening 2004 translation reserve has reduced by CHF 1,091,312 and Profit for the year has increased by the same amount.

Other

During 2004, the Directors were advised that investments in redeemable preference shares in lessee companies that lease investment properties from the Group should be recog-

nised in loans and receivables and not investments as previously reported in the balance sheet. Consequently, the balance sheet designation has changed from investments to loans and receivables.

The presentation of cash flow has been amended for compliance to IAS 7.

2.3 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.

2.4 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.

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2.5 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.

2.6 Investment Property

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

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

guidance issued by the International Valuation Standard Committee and are reviewed annually by external valuers.

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

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

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

2.7 Intangible assets

Business licences

Business licences are initially recognised on the date of the transaction at fair value including related transaction costs, and expenditure that is directly attributable to the acquisition. After initial recognition business licences are amortised on a straight line basis over the period of each licence. These assumptions are reviewed on an annual basis for any impairment in accordance with IAS 36 and whenever there is an indication that the licences may be impaired. Amortisation of the business licences is recorded in the income statement.

2.8 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.

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2.9 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.

2.10 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. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge).

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.

2.11 Accounting for leases and deferred income

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

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

2.12 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.

2.13 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.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 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.

2.16 Dividends

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

2.17 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.

2.18 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.

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2.19 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.

2.20 Revenue recognition

Revenue consists of rental income. Every investment property is accounted for individually. Rental income consists of revenue generated by operating lease income from the individual investment properties. Operating lease agreements are based on long-term leasing contracts of 7 to 35 years. Rental income from operating leases is recognised in income on a straight-line basis over the lease term.

2.21 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.

2.22 Borrowing costs

Interest on borrowings is charged to the income statement.

2.23 Accounting for Minority Interest

The amount paid for a minority interest in excess of the book value is included in equity. The partial disposal of a minority interest is recognised in equity.

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.

	Number of Shares	Market Value CHF	Costs CHF
As at 30 June 2005			
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 (note 25)			(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 Swiss Franc. 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.

(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 2005 interest rate swaps with an aggregate principal amount of CHF 122.922 million (2004 – CHF 89.225 million) and a negative fair value of CHF 2,420,044 (2004 – CHF 110,325) were designated as interest rate hedges. The movement between these dates, reflecting a move to market of the interest rate swaps of negative CHF 2,309,719 (2004 –

negative CHF 696,949), was adjusted directly against the fair value 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 2005 and 2004 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.

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(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 15.40 million lower (2004 – CHF 8.29 million) or CHF 17.02 million higher (2004 – CHF 9.38m).

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

The fair value of intangible assets is based upon independent valuations which are based on multiples of historic earnings.

(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.

6. FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement & cash flow statement	
	31.12.2005 CHF	31.12.2004 CHF	Average 2005 CHF	Average 2004 CHF
GBP 1.00	0.4416	0.4587	0.4416	0.4393
USD 1.00	0.7600	0.8835	0.8027	0.8046

7. REVENUE

	2005 CHF	2004 CHF
Rent receivable	27,377,552	22,870,215

Rent receivable is stated after reallocation of CHF 1,154,471 (2004 – CHF 911,888) to interest receivable as referred to in Note 14.

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The future aggregate minimum rentals receivable under non-cancellable operating leases and business licences are as follows:

	As of 31 December 2005 CHF	As of 31 December 2004 CHF
Less than 1 year	24,332,275	18,356,988
More than 1 year and less than 5 years	100,391,713	75,615,262
More than 5 years	675,071,631	582,319,723
	799,795,619	676,291,973

The Group's income is not affected by seasonal factors.

Investment properties in the UK are leased for an initial period of between 7 and 35 years. The leases terminate between 2012 and 2039, although the lessee has the right to renew the lease in the 5th and 33rd year of the 7 and 35 year respectively, for a further period of 35 years subject to agreement on the revised rent. The rent on each lease increases on its anniversary at the rate of inflation in the UK, subject to minimum and maximum increases of 1.5% and 5% of the prior year's rent, respectively. In the event that a UK property is damaged or destroyed by any insured risk and is not reinstated by the Group within a period of 3 years, the lessee has the right to terminate the lease in respect of that UK property. The lessor may terminate each lease, subject to the senior lender's consent, for various reasons including the breach of material clauses of the lease.

The investment property in Switzerland is leased for a term of 20 years expiring on 30 June 2023. The lessor may terminate the lease prior to the end of the term in accordance with Swiss law and on 3 months written notice in the event of a change in control of the lessee. The lease rental payments are adjusted annually on 1 July of each year, in accordance with movements in the Swiss Index of Consumer Prices.

Investment properties in the United States of America are leased to the United States Postal Service under a master lease executed in March 1997 and amended on 29 January 1999. The lease expires on 28 February 2022. The rent under the lease is fixed for the entire period of the lease. The lessee has the right to unilaterally relinquish use of up to 25 of the post office properties provided that the resultant reduction in annual rent payable under the lease does not exceed a maximum of \$300,000 per annum or 13% of the annual rental. Management have factored this into their analysis of minimum lease payments, and have no reason to believe that this right will be exercised in the foreseeable future.

8. ADMINISTRATIVE EXPENSES

	2005 CHF	2004 CHF
Property rent, maintenance and office expenses	477,997	507,763
Administration of group companies	75,763	109,267
Management fees	3,373,808	2,960,799
Professional fees	1,672,808	2,639,996
Audit fees	561,386	448,760
Amortisation of intangible assets (see note 13)	517,560	455,240
Sundry expenses	435,541	248,980
	7,114,863	7,370,805

9. FINANCE COSTS

		2005 CHF	2004 CHF
Interest on mortgages		8,689,906	7,149,883
Interest on bonds		548,211	771,982
Other interest and borrowing expenses		5,439,440	4,727,731
Interest on pre IPO notes		280,000	286,665
Interest on preference shares		122,415	1,014,935
Interest on notes		766,497	180,304
	Note 24	15,846,469	14,130,392
Amortisation of loan notes	Note 24	317,723	317,232
Credit enhancement premia		1,156,464	1,058,884
Exchange gains		(666,359)	(499,341)
Exchange losses		230,382	357,086
		16,884,679	15,365,352

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10. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the period. The basis for the calculation is the number of shares issued for the capital increase referred to in note 3 as a result of the reverse acquisition. The weighted average number of ordinary shares for the period ended 31 December 2005 has been adjusted to reflect the various increases in the issued share capital of USI, as detailed in note 18, adjusted for the exchange value described in note 3. The weighted average number of ordinary shares used for the comparative period in 2004 has been adjusted to reflect the number of ordinary shares at 31 December 2003 (16,170) and the subdivision of the ordinary shares of USI (1,600,830), as detailed in note 18, adjusted for the exchange value described in note 3.

	As of 31 December 2005 CHF	As of 31 December 2004 CHF
Net profit attributable to shareholders	23,212,063	18,201,210
Weighted average number of ordinary shares outstanding	719,996	449,120
Basic earnings per share (CHF per share)	32.24	40.53

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.

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.

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 2005 no options had been awarded nor had conditional capital been created for this purpose.

Management has estimated that the maximum number of additional ordinary shares that could be issued at 31 December 2005 as 98,244 (2004 – 98,244). Based on this, the diluted earnings per share at December 2005 was CHF 26.78 (2004 – CHF 33.25).

11. DIVIDENDS

The dividends paid in 2005 and 2004 were CHF 3,432,491 and CHF nil respectively. The dividend equated to 6% p.a. (2004 – CHF nil) from the date of the share subscriptions received under a private placement of shares issued by USI to 30 June 2005. No dividend in respect of the period ended 31 December 2005 is to be proposed at the Annual General Meeting on 22 May 2006. However, the Board of Directors will propose a cash distribution in the form of a nominal value reduction of CHF 4.45 per share, totalling CHF 3.4 million.

12. INVESTMENT PROPERTY

	2005 CHF	2004 CHF
As at 1 January	242,708,334	158,660,220
Additions arising from acquisitions	-	9,661,340
Extension of properties	772,061	-
Additions from business combinations (Note 25)	36,304,000	73,134,306
Net gains on fair value adjustment (Note 24)	30,136,997	9,417,780
Net changes in fair value adjustments due to exchange differences	13,316,093	(8,165,312)
As at 31 December	323,237,485	242,708,334
Fire Insurance Value	223,999,993	165,792,153

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.

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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%.

The valuation of the investment properties in Switzerland was conducted by Botta Management, AG, using a discounted cash flow analysis. A discount factor of 4.5%–4.7% was used for the valuation at 31 December 2005.

Included in property rent, maintenance and office expenses, as detailed in Note 8, are repairs of CHF 142,897 (2004 – CHF 205,136) 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 65 to 67. This information is part of the notes to the consolidated financial statements.

13. INTANGIBLE ASSETS

	Total CHF
Year Ended 31 December 2004	
Opening net book amount	-
Additions	17,441,600
Exchange differences	19,200
Amortisation charge	(455,240)
Closing net book amount	17,005,560
At 31 December 2004	
Cost	17,460,800
Accumulated amortisation and impairment	(455,240)
Net book amount	17,005,560
Year Ended 31 December 2005	
Opening net book amount	17,005,560
Exchange differences	655,980
Amortisation charge	(517,560)
Closing net book amount	17,143,980
At 31 December 2005	
Cost	18,116,780
Accumulated amortisation and impairment	(972,800)
Net book amount	17,143,980

Intangible assets consist of a business in respect of the provision of domiciliary care to clients in their own properties which has been leased to an independent third party. A valuation of the assisted living contracts was made as at 31 December 2005 by Colliers CRE, Chartered Surveyors and International Property Consultants. The intangible assets are being amortised over 35 years and the remaining life of these assets is 33 years.

During the year, HCP Wellcare Progressive Lifestyles Limited received CHF 1,558,807 (2004 – CHF 1,316,713) in business fees from European Wellcare Lifestyles Limited under the terms of a long term lease of these contracts.

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14. LOANS AND RECEIVABLES

	2005 CHF	2004 CHF
As at 1 January	9,487,140	4,979,537
Additions	-	4,572,970
Net changes in fair value adjustments due to exchange differences	365,961	(65,367)
As at 31 December	9,853,101	9,487,140

Loans consist of 100% of the issued redeemable preference shares in lessee companies. These companies lease the investment properties as referred to in note 12.

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 referred to in note 7. During the year ended 31 December 2005 CHF 1,154,471 (2004 – CHF 911,888) has been deducted from rental income and included in interest receivable. The various rental contracts are referred to in note 7.

The fair values of loans and receivables are as follows:

	2005 CHF	2004 CHF
Loans	9,853,101	9,487,140

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 10.17% (2004 – 10.02%).

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

	2005	2004
Loans	10.17%	10.02%

15. INVESTMENTS IN SUBSIDIARIES

	Country of Incorporation	Ownership Percentage	
		2005	2004
USI Group Holdings Limited (Note 3)	BVI	100%	-
USI AG	Switzerland	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 (acquired 14 January 2004)	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 (acquired 19 February 2004)	UK	100%	100%
HCP Wellcare Two Limited (acquired 19 February 2004)	UK	100%	100%
HCP Wellcare Three Limited (acquired 19 February 2004)	UK	100%	100%
HCP Wellcare Four Limited (acquired 19 February 2004)	UK	100%	100%
HCP Wellcare Five Limited (acquired 19 February 2004)	UK	100%	100%
HCP Wellcare Six Limited (acquired 19 February 2004)	UK	100%	100%
Hollygarth Care Homes Limited (acquired 5 May 2005 – Note 25)	UK	100%	-

All of the above entities were subsidiaries of the Company for the whole of the year unless otherwise stated. On 15 November 2004 the minority shareholdings on certain subsidiaries were exchanged for shares in the Company (see note 27).

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16. DERIVATIVE FINANCIAL INSTRUMENTS

	2005		2004	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Interest rate swaps – cash flow hedges	548,212	2,968,256	414,391	524,716
Due to preference share holders	-	-	-	635,183
	548,212	2,968,256	414,391	1,159,899

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2005 were CHF 122.922 million (2004 – CHF 89.225 million). At 31 December 2005, the fixed interest rates vary from 2.59% to 6.88% (2004 – from 2.59% to 6.925%).

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.

Due to preference shareholders

The amounts due to preference shareholders represents the proportionate share of the net changes in fair value adjustments in respect of certain investment properties. The preference shares were converted into equity in March 2005.

17. RECEIVABLES AND PREPAYMENTS

	2005 CHF	2004 CHF
Rents receivable	223,149	218,247
Other receivables	3,309,635	4,748,219
Prepayments	5,783,246	3,842,824
	9,316,030	8,809,290

In July 2003 Healthcare Properties UK (Holdings) Limited deposited £1 million as a prepayment of insurance premia with the QBE Insurance Group ('QBE') as part of a £3.75 million collateralised borrowing described under Mortgages in note 19. Funds are released from the deposit in the same amount as principal repayments on the relevant mortgage obligations. At 31 December 2005 the balance remaining with QBE was £500,000, which is included in prepayments.

In December 2005 USI Group Holdings Limited deposited £250,000 as a prepayment of insurance premia with QBE as part of a CHF 23 million borrowing. In accordance with the terms of the agreement with QBE, the deposit was increased to £500,000 on 31 December 2005, which is included in prepayments. On full repayment of the borrowings the prepaid insurance premia will be returned to USI Group Holdings Limited.

Included prepayments at 31 December 2005 is an amount of CHF 1,381,223 (2004 – CHF 1,155,506) representing restricted cash held as collateral against a Group company's obligations to QBE Insurance Group.

Included under other receivables is an amount of CHF 1,374,010 (2004: CHF 1,031,980) in respect of funds held by a trustee in respect of maintenance and amortisation reserves, which will be utilised on maturity of the bonds issued by United Post Office Investments Inc.

Included within other receivables is an amount of CHF 929,894 in respect of Corporation tax that was overpaid on account and is receivable at 31 December 2005.

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18. SHARE CAPITAL

	31 Dec 2005 CHF	31 Dec 2004 CHF
Authorised:		
Equity interests:		
5,000,000 Ordinary shares of \$0.01 each (USI)	-	73,860
763,820 (2004 – 24,000) Ordinary shares of CHF 100 each (Regedo)	76,382,000	-
Allotted, called up and fully paid:		
Equity interests:		
2,181,280 Ordinary shares of \$0.01 each (USI)	-	28,678
763,820 (2004 – 24,000) Ordinary shares of CHF 100 each (Regedo)	76,382,000	-

	Number of Shares CHF	Ordinary Shares CHF	Share Premium CHF	Total CHF
At 31 December 2003 as previously stated (USI)	16,170	22,399	11,039,433	11,061,832
Changes in accounting policies (note 2.2)	-	-	17,572,172	17,572,172
At 31 December 2003 as restated (USI)	16,170	22,399	28,611,605	28,634,004
Subdivision of capital (USI)	1,600,830	-	-	-
Issue of new shares (USI)	565,280	6,279	17,519,079	17,525,358
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

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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 25.

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.

19. BORROWINGS

	2005 CHF	2004 CHF
Non-current		
Mortgages	167,576,773	139,222,052
Bonds	-	26,027,509
Other	22,810,000	18,043,050
Senior Pre-IPO Notes	7,000,000	7,000,000
	197,386,773	190,292,611
Current		
Mortgages	4,016,566	2,432,046
Other	30,758,001	500,927
Preference shares	-	10,128,097
	34,774,567	13,061,070
Total borrowings	232,161,340	203,353,681

Total borrowings include secured liabilities (Mortgages, bonds and other borrowings) of CHF 177,001,284 (2004 – CHF 185,724,657). These borrowings are principally secured by the land and buildings of the Group (Note 12). At 31 December 2005 the group had subordinated borrowings of CHF 23,000,000 million (2004 – CHF 16,977,929) which are primarily secured by a pledge of shares of various subsidiary undertakings.

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The maturity of non-current is as follows:

	2005 CHF	2004 CHF
Current borrowings	34,774,567	13,061,070
Between 1 and 2 years	4,114,374	30,107,947
Between 2 and 5 years	25,985,855	42,171,201
Over 5 years	167,286,544	118,013,463
Non-current borrowings	197,386,773	190,292,611

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

	2005			2004		
	€	USD	CHF	€	USD	CHF
Mortgages	6.90%	-	3.48%	6.29%	-	4.25%
Bonds	-	4.51%	-	-	4.51%	-
Other	-	-	6.11%	10.00%	10.00%	4.25%
Senior Pre-IPO Notes	-	-	4.00%	-	-	4.00%
Preference shares	-	-	-	-	7.32%	-

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

	Carrying amounts		Fair values	
	2005 CHF	2004 CHF	2005 CHF	2004 CHF
Mortgages	167,576,772	139,222,052	109,167,069	85,441,202
Bonds	-	26,027,509	-	23,834,169
Other	22,810,000	18,043,050	19,992,474	16,227,090
Senior Pre-IPO Notes	7,000,001	7,000,001	5,532,202	5,319,300
	197,386,773	190,292,612	134,691,745	130,821,761

The fair values are based on cash flows discounted using a rate based upon a range of borrowings rate between 3.07% and 6.88% (2004 – 4.0% to 10.00%).

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:

	2005 CHF	2004 CHF
Pound sterling	157,703,338	127,522,117
US dollar	30,264,354	53,412,977
Swiss franc	44,193,648	22,418,587
	232,161,340	203,353,681

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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.

	2005 CHF	2004 CHF
Deferred tax liabilities to be recovered after more than 12 months	34,010,158	13,643,188

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

	2005 CHF	2004 CHF
Beginning of the year	13,643,188	7,126,961
Income statement charge (Note 21)	13,130,063	2,651,454
Acquisition of subsidiary (Note 25)	6,726,823	3,976,600
Net changes due to exchange differences	505,084	(111,827)
End of the year	34,010,158	13,643,188

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

	Business combinations CHF	Fair value gains CHF	Straight line recognition of lease income CHF	Total CHF
Deferred tax liabilities				
At 31 December 2004	3,976,600	7,270,614	2,395,974	13,643,188
Charged to the income statement	-	11,547,463	1,582,601	13,130,064
Arising on acquisition	6,712,888	-	-	6,712,888
Net changes due to exchange differences	153,395	278,471	92,151	524,018
At 31 December 2005	10,842,883	19,096,548	4,070,726	34,010,158

21. INCOME TAXES

	2005 CHF	2004 CHF
Current tax	122,386	368,555
Deferred tax (Note 20)	13,130,063	2,651,454
	13,252,449	3,020,010

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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:

	2005 CHF	2004 CHF
Profit before tax per consolidated income statement	36,464,512	24,423,833
Tax calculated at domestic tax rates applicable to profits in the respective countries	10,939,354	7,082,912
Income not subject to tax	(939,406)	(4,928,198)
Expenses not deductible for tax purposes	702,605	865,296
Tax relating to prior years	1,993,677	-
Tax losses for which no deferred tax income asset has been recognised	556,219	-
Tax charge (Note 24)	13,252,449	3,020,010

The weighted average applicable tax rate was 30% (2004: 29%). 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 1.8 million, which expires between 2008 and 2012, these losses were not capitalised as it is unlikely that they will be utilised by the Group.

22. TRADE AND OTHER PAYABLES

	2005 CHF	2004 CHF
Trade payables	-	173,237
Social security and other taxes	1,080	47,044
Other payables	88,027	222,904
Amounts owed to Related Parties (Note 26)	-	399,857
	89,107	843,042

23. ACCRUALS

	2005 CHF	2004 CHF
Capital raising expenses	-	1,801,077
Interest and other finance costs	1,386,078	2,716,405
Other accrued expenses	2,121,050	5,594,698
	3,507,128	10,112,180

24. CASH GENERATED FROM OPERATIONS

	2005 CHF	2004 CHF
Profit for the year attributable to equity holders:	23,212,063	21,403,823
Adjustments for:		
Interest expense (Note 9)	15,846,469	14,130,392
Interest income	(1,742,481)	(1,382,505)
Tax (Note 21)	13,252,449	3,020,010
Negative goodwill	(1,207,024)	(13,489,490)
Changes in derivative financial instruments	(635,184)	295,906
Amortisation of Loan Notes (Note 9)	317,723	317,232
Amortisation of intangible assets (Note 8)	517,560	455,240
Changes in fair value of investment Property (Note 12)	(30,136,997)	(9,417,780)
Changes in other liabilities	(401,362)	(25,480)
Changes in receivable and prepayments	(601,563)	826,105
Changes in deferred income	(5,510,763)	(4,083,036)
Changes in trade and other payables	4,776,659	(10,466,937)
Changes in accruals	(5,274,726)	5,440,298
Cash generated from operations	12,412,823	7,023,778

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25. BUSINESS COMBINATIONS

Acquisition of Regedo Holding AG

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.

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

The assets and liabilities arising from the acquisition are as follows:

	Note	Fair value CHF	Acquiree's Carrying amount CHF
Cash and cash equivalents		27,607	27,607
Investment property		36,304,000	36,304,000
Intangible assets		90,195	90,195
Stocks		13,335	13,335
Receivables		2,983,084	2,983,084
Payables		(1,968,479)	(1,968,479)
Deferred tax	20	(6,726,823)	(144,311)
Net assets acquired		30,722,919	37,305,431

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	CHF
Purchase consideration settled in cash	29,540,273
Cash and cash equivalents in subsidiary acquired	(27,607)
Cash outflow on acquisition	29,512,666

On 19 February 2004, the Group acquired 100% of the share capital of Wellcare Holdings Limited (now renamed HCP Wellcare One Limited), an owner and operator of residential and nursing care home facilities in the UK and a school & resource centre for children and adults with learning difficulties. On the same day the assets and the businesses were leased to a third party operator at an initial rent of £3.57 million (CHF 8.1 million) per annum. The lease is for an initial period of 35 years. The lease contributed revenues of CHF 6,980,443 and net profit of CHF 16,909,571 to the Group for the period from 19 February 2005 to 31 December 2004. If the acquisition had occurred on 1 January 2004, the lease contributed revenues of CHF 8,096,267 and net profit of CHF 21,324,969.

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

	CHF
Purchase consideration:	
Cash paid	68,126,655
Direct costs relating to acquisition	4,633,687
Total purchase consideration	72,760,342
Fair value of net assets acquired	86,249,832
Negative goodwill	13,489,490

The assets and liabilities arising from the acquisition are as follows:

	Fair value CHF	Acquiree's Carrying amount CHF
Cash and cash equivalents	4,412,912	4,412,912
Investment property	73,134,306	73,134,306
Intangible assets	18,209,600	-
Receivables	2,615,001	2,615,001
Payables	(7,970,287)	(7,970,287)
Deferred tax	(4,151,700)	(375,573)
Net assets acquired	86,249,832	71,816,359

	CHF
Purchase consideration settled in cash	72,760,342
Cash and cash equivalents in subsidiary acquired	(4,412,912)
Cash outflow on acquisition	68,347,430

	2005 CHF	2004 CHF
Negative goodwill on reverse acquisition	24,378	-
Negative goodwill from other business combinations	1,182,646	13,489,490
Negative goodwill	1,207,024	13,489,490

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26. RELATED PARTY TRANSACTIONS

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 6.13% of the issued ordinary share capital of the Company at 31 December 2005 (31 December 2004 – 7.42%).

The Group was charged CHF 3,268,736 (2004 – CHF 2,660,925) management fees for services rendered by RP&C. The Group was charged CHF 407,644 (2004 – CHF 719,446) 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 CHF 500,000 (2004 – CHF nil) 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 489,000 (2004 – CHF nil) by RP&C during the period for services rendered in connection with a private placement of shares: 12,225 shares were issued by USI Group Holdings Limited in respect of this fee and 6,112 of these shares have been re-allocated to Dr iur. V and Mrs Lanfranconi. These shares were exchanged for shares in the Company as part of the reverse acquisition referred to in note 3 above.

At 31 December 2005, RP&C was owed CHF 387,871 (2004 – CHF 1,819,554) by the Group (Note 22 & 23).

For the year ended 31 December 2005, the Group was charged CHF 140,000 (2004 – CHF 180,976) management fees and other charges for services rendered by Dr. iur V. Lanfranconi. Of this amount CHF nil (2004 – CHF 127,699) was outstanding at the year end.

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 (2004 – USD 3.13 million) in favour of QBE Insurance Group ('QBE'). During the year, the group assumed responsibility for these obligations to the providers of the Letters of Credit. In addition, in support of the financing of certain UK investment properties, Dr iur. V Lanfranconi has posted two Letters of Credit with an aggregate value of £900,000 (2004 – £900,000) also in favour of QBE. During the year, the Group paid CHF 71,315 (2004 – CHF 96,000) in respect of the charges in respect of these Letters of Credit.

Esquire Consolidated Limited ('ECL'), has subsidiaries that are customers of the Group. Under various rental contracts total rental income from these contracts for the year ended 31 December 2005 was CHF 17,879,176 (2004 – CHF 14,947,538).

At 31 December 2005 the Group had outstanding loans to subsidiaries of ECL of £4,351,500 (31 December 2004 - £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%.

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 25. These shares were exchanged for shares in the Company as part of the reverse acquisition referred to in note 3.

At 31 December 2005 the Group had outstanding loans of CHF 23m (2004 - CHF nil) 5.76% fixed interest, USD nil (31 December 2004 - USD15m) 10% Senior increasing rate note, £3,750,000 (31 December 2004 - £3,750,000) 5.02% fixed interest and £7,500,000 (31 December 2004 - £7,500,000) 5.98% fixed interest from Nationwide Insurance Group, which is a minority shareholder of RP&C.

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.

The following directors fees were recognised in 2005 and all these amounts were outstanding at the year end.

	2005 CHF	2004 CHF
Mr Robert Bider	15,000	Nil
Mr Armin Hilti	15,000	Nil
Dr. Volkert Klaucke	15,000	Nil
Mr William Vanderfelt	15,000	Nil

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27. MINORITY INTERESTS

	2005 CHF	2004 CHF
1 January	-	2,532,204
Share of profit of subsidiaries	-	3,202,613
Conversion of minority interests to equity	-	(5,734,817)
	-	-
31 December 2005	-	-

On 15 November 2004 165,000 shares of the Company were issued to minority interests (see Note 18).

28. EMPLOYEES

The Company had no employees at 31 December 2005 (2004 – none).

29. FINANCIAL COMMITMENTS

	2005 CHF	2004 CHF
Commitments for capital expenditure:		
Authorised and contracted for	297,952	-

30. SUBSEQUENT EVENTS

In January 2006 a subsidiary of the Company invested £2.75 million into a mezzanine loan. The borrower was a subsidiary of Esquire Consolidated Limited and the funds were used as part of 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, although 6% per annum will 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. The USI Group has a second mortgage on the investment properties and a charge over the shares of the company owning the investment properties.

In January 2006 a Group company entered into a supplemental facility agreement of up to £550,000 with Allied Irish Bank. The facility is repayable over the term of the loan which matures in February 2014. The interest rate has been fixed at 6.38% and is payable quarterly in arrears. The loan may be repaid prior to maturity in accordance with the terms of the facility agreement. The company issued a debenture to the bank in respect of all assets of the relevant Group company. In February 2006 the Group company had drawn down £350,000 of the total facility.

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31. SEGMENT INFORMATION

For the year ended 31 December 2005

SEGMENT 1					
	Note	UK CHF	US CHF	Switzerland CHF	Total CHF
Revenue	7	23,336,309	2,874,418	1,166,825	27,377,552
Net gain on fair value adjustment of investment property		29,860,561	420,731	(144,295)	30,136,997
Negative goodwill	25	1,182,646	-	24,378	1,207,024
Administrative expenses	8	(5,760,869)	(426,996)	(926,998)	(7,114,863)
Interest income		1,693,946	39,265	9,270	1,742,481
Segment result		50,312,593	2,907,418	129,180	53,349,191
Finance costs – net	9	(14,438,369)	(1,851,342)	(594,968)	(16,884,679)
Segment profit/(loss) before income tax		35,874,224	1,056,076	(465,788)	36,464,512
Income Taxes	21	(13,456,231)	-	203,782	(13,252,449)
Profit for the year		22,417,993	1,056,076	(262,006)	23,212,063
Attributable to:					
Equity holders of the Company					23,212,063
Minority interests					-
					23,212,063
Segment assets		301,380,198	43,478,441	30,581,677	375,440,316
Unallocated assets					13,462,668
Total assets					388,902,984

For the year ended 31 December 2005					
SEGMENT 1					
	Note	UK CHF	US CHF	Switzerland CHF	Total CHF
LIABILITIES					
Segment liabilities		(193,372,296)	(30,683,532)	(18,722,979)	(242,778,807)
Unallocated liabilities					(30,145,736)
Total liabilities					(272,924,543)
Other segment items					
Property Acquisitions/ Business Combinations	12	36,304,000	-	-	36,304,000
Amortisation of loan notes	9	-	317,723	-	317,723
Amortisation of Intangible Assets	13	517,560	-	-	517,560

At the 31 December 2005, the Group's business segment is organised on a worldwide basis into three main geographical areas. The nature of operations in the US is that of Postal Offices and in the UK and Switzerland that of Nursing Homes, although geographical segments are considered primary. Investment properties are leased on the bases described in note 7.

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For the year ended 31 December 2004

SEGMENT 1

	Note	UK CHF	US CHF	Switzerland CHF	Total CHF
Revenue	7	18,865,983	2,874,251	1,129,981	22,870,215
Net gain on fair value adjustment of investment property	12	12,634,660	(2,270,175)	(946,706)	9,417,780
Negative goodwill	25	13,489,490	-	-	13,489,490
Administrative expenses	8	(6,911,156)	(424,516)	(35,133)	(7,370,805)
Interest income		1,382,505	-	-	1,382,505
Segment result		39,461,482	179,561	148,142	39,789,185
Finance costs – net	9	(13,435,736)	(1,358,957)	(570,659)	(15,365,352)
Segment profit/(loss) before income tax		26,025,746	(1,179,396)	(422,517)	24,423,833
Income Taxes	21				(3,020,010)
Profit for the year					21,403,823
Attributable to:					
Equity holders of the Company					18,201,210
Minority interests					3,202,613
					21,403,823
Segment assets		233,558,736	38,566,462	31,914,605	304,039,803
Unallocated assets					890,210
Total assets					304,930,013

For the year ended 31 December 2004

SEGMENT 1					
	Note	UK CHF	US CHF	Switzerland CHF	Total CHF
LIABILITIES					
Segment liabilities		(175,942,701)	(27,559,392)	(17,657,023)	(221,159,116)
Unallocated liabilities					(8,938,237)
Total liabilities					(230,098,353)
Other segment items					
Property Acquisitions/ Business Combinations	12	73,134,306	-	-	73,134,306
Amortisation of loan notes	9	-	317,232	-	317,232
Amortisation of Intangible Assets	13	455,240	-	-	455,240

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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 61 to 64, of USI Group Holdings AG for the year ended 31 December 2005.

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 financial statements and the proposed appropriation of accumulated deficit comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG



Stefan Gerber
Zurich, 30 March 2006



Patrick Balkanyi

Balance Sheet

USI Group Holdings AG (formerly Regedo Holding AG)

	31.12.2005 CHF	31.12.2004 CHF
ASSETS		
Cash and cash equivalents	2,522,984	3,901,803
Receivables third parties	969	66,206
Prepaid expenses	25,687	-
Total current assets	2,549,640	3,968,009
Investments	122,498,103	-
Total non-current assets	122,498,103	-
TOTAL ASSETS	125,047,743	3,968,009
LIABILITIES		
Other current liabilities		
Shareholders	37,866	37,866
Intercompany	4,858,580	-
Accrued expenses	184,021	16,480
Total liabilities	5,080,467	54,346
Share capital	76,382,000	2,400,000
Legal reserves	44,259,707	1,600,000
General reserves	44,259,707	1,600,000
Accumulated deficit	(674,431)	(86,337)
Balance carried forward from prior year	(86,337)	(127,559)
Annual (loss)/income	(588,094)	41,222
Total shareholders' equity	119,967,276	3,913,663
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	125,047,743	3,968,009

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Income Statement

USI Group Holdings AG (formerly Regedo Holding AG)

	2005 CHF	2004 CHF
1 January – 31 December		
Other income	-	728
Other income		
Personnel expenses	-	(604)
Directors' fees	(45,000)	-
Professional fees	(298,776)	-
Tax consultancy	(4,734)	-
Audit fees	(165,412)	-
Listing fees	(19,000)	-
Insurance	(12,843)	-
General administration expenses	(25,246)	(61,346)
EBIT	(571,011)	(61,222)
Financial expenses	(7,376)	(3,837)
Financial income	9,386	9,730
(Loss) before tax expenses	(569,001)	(55,329)
Tax expenses / reclaims	(19,093)	96,551
NET (LOSS)/INCOME	(588,094)	41,222

Notes

USI Group Holdings AG (formerly Regedo Holding AG)

To the financial statements at 31 December 2005

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.

The share capital of Regedo was increased from CHF 2,400,000 to CHF 76,382,000 in exchange of 739,820 shares in USI Group Holdings Limited.

Issuance of bonds

Bank guaranty in favor of Migros-Genossenschafts-Bund, Zurich in the amount of CHF 3,500,000, valid through 30 June 2004.

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.

	31.12.2005	31.12.2004
USI Limited	59.00%	78.93%
USI USA II	5.94%	
Esquire Consolidated Limited	7.27%	
Equinox USI Limited	5.22%	
NEBAG, Zürich ¹	-	20.04%

¹Management is not aware of the exact holding at 31 December 2005 but believes that it is below 5%.

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Significant investments

	Domicile	Share capital	Shares held	Type of shares and nominal value	Ownership
USI Group Holdings Limited	British Virgin Islands	\$28,160.22	2,816,022	Ordinary USD0.01	100%

USI Group Holdings Limited is a holding company and finance company.

The Company had no investments in the financial year 2004.

Proposal of the Board of Directors for appropriation of accumulated deficit at 31 December 2005

in CHF

Accumulated deficit	
Accumulated deficit at 1 January 2005	(86,337)
Net loss 2005	(588,094)
Accumulated deficit	(674,431)
Release of general reserve	674,431
Net accumulated deficit	-

Other Information (Audited)

for the year ended 31 December 2005

Property investments by segment as at 31 December 2005

Located in:	CHF millions	%
United Kingdom	252.9	78.2
United States	39.7	12.3
Switzerland	30.6	9.5
	323.2	100.0

Movement in Investment Properties by segment is as follows:

	UK CHF	US CHF	Switzerland CHF	Total CHF
As at 1 January 2004	87,481,795	39,678,425	31,500,000	158,660,220
Additions arising from acquisitions	9,661,340	-	-	9,661,340
Additions from business combinations (Note 25)	73,134,306	-	-	73,134,306
Net gains on fair value adjustment (Note 24)	12,589,191	(2,258,306)	(913,105)	9,417,780
Net changes in fair value adjustments due to exchange differences	(10,285,193)	2,119,881	-	(8,165,312)
As at 31 December 2004	172,581,439	39,540,000	30,586,895	242,708,334
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 (Note 25)	36,304,000	-	-	36,304,000
Net gains on fair value adjustment (Note 24)	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

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 12 (Page 31) and to Pages 68-71 of this report.

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Other Information (Audited)

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 state	UPOI	FH	1962-1989	-	100	N/A ⁴	11.8	28,498
Switzerland								
Etzelgut, Etzelstrasse 14, 8038 Zurich	HCPETZ	FH	1931/1983	2005	100	55	9.0	2,249
United Kingdom								
Manor House, Merton, Bicester, Oxfordshire	HCPO	FH	16th century & 1990s	2003	100	102	7.5	3,990
Walton Progressive School & Resource Centre, Rice Lane, Liverpool, Merseyside	HCSS	FH	1985 & 2001	2005	100	90 ⁵	7.1	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	5.4	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	2.5	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	2.2	2,120
Dunollie Nursing Home, 31 Filey Road, Scarborough, North Yorkshire	HCPLDK	FH	1901	1994	100	58	2.1	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	2.0	2,040
Lakeview, Chorley Road, Withnell, Chorley, Lancashire	HCPUK	FH	1990s	-	100	57	2.0	1,850
Stanley Burn House,, Station Road, Wylam	HCPO	FH	18th Century & 1993/4	1994	100	40	1.8	1,400

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 25 properties within the residential care sector. The current fair value of each of these properties represents less than 1.8% 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 2,311,000 (CHF 2,874,000)	13.4%
European Care (UK) Limited	London, UK	11 UK nursing/residential homes	March 2036	GBP 2,262,000 (CHF 5,122,000)	23.8%
European Care (SW) Limited	London, UK	7 UK nursing/residential homes	May 2036 to February 2037 ¹	GBP 909,000 (CHF 2,058,000)	9.6%
European Care (England) Limited	London, UK	8 UK nursing/residential homes	May 2012	GBP 1,200,000 (CHF 2,717,628)	12.6%
European Care (England) Limited	London, UK	1 UK nursing/residential homes	December 2037	GBP 778,000 (CHF 1,762,000)	8.2%
European Wellcare Homes Limited	London, UK	8 UK nursing/residential homes and offices	February 2039	GBP 1,630,000 (CHF 3,692,000)	17.1%
European Wellcare Education Limited	London, UK	1 UK school	February 2039	GBP 724,000 (CHF 1,640,000)	7.6%
European Wellcare (Dumfries) Limited	London, UK	1 UK nursing/residential home	February 2039	GBP 625,000 (CHF 1,415,000)	6.6%
topCare Management AG	Zurich, Switzerland	Etzelgut Swiss nursing home	June 2023	CHF 1,167,000	5.4%

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 688,000 (CHF 1,559,000).

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.

¹18.0% of the value of leases expire in May 2036, 28.7% expire in August 2036 and 53.3% expire in February 2037.

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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 desk-top 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 6.5%–7.0% was appropriate under market conditions prevailing at 31 December 2005. USI has used a capitalisation rate of 7.0% 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) 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 18 months and concluded that the multiples range between 12.75 and 13.5 times the GRM.

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 6.15% and 7.50%.

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REAC observed that upward trends in the 10-year treasury rates have been higher than the increase in capitalisation rates applied in comparing the market as a whole. 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% was used for the valuation at 31 December 2005.
- (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 firm.

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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 74) 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 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, USI Group Holdings Limited (BVI) became a wholly owned subsidiary of the Company and the Company has become the parent company of USI Group Holdings Limited (BVI) and its subsidiaries (hereinafter the 'USI Group').

The principal shareholding of the USI Group are as follows:

Company	No of Shares Owned	Type of Shares and Nominal Value	Ownership	Voting Rights
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 £1	Ordinary	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%
Hollygarth Care Homes Limited	67,002	Ordinary £1	100%	100%
HCP Wellcare Holdings Limited	10,000	Ordinary £0.01	100%	100%
Healthcare Properties (Wellcare) Limited	1,000	Ordinary £100	100%	100%
Healthcare Properties (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 USI Group Holdings Limited.
All other subsidiaries are owned indirectly.

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2. Annual general meeting of shareholders 2005

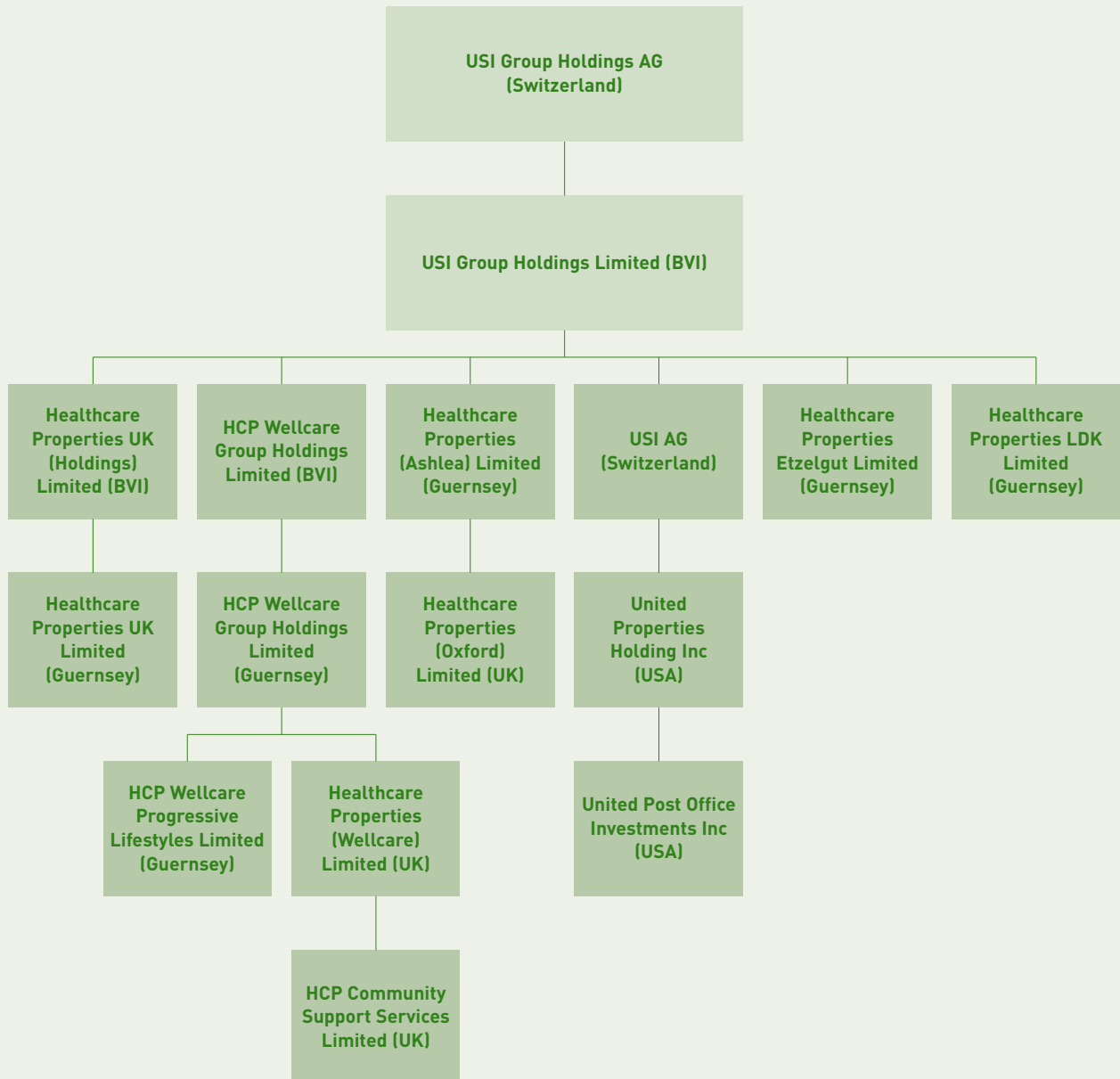
At the annual general meeting of shareholders of the Company on 30 June 2005 significant changes to the corporate governance structure of the Company were made:

- (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.

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:



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3.2 Significant shareholders

At 31 December 2005 the Company had following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 100	Percentage of ownership of total equity capital and voting rights
USI Limited¹ Nerine Chambers, Road Town, Tortola, British Virgin Islands	450,655	59.0%
USI-Investors		
Equinox USI Ltd² c/o Herndon Plant Oakley Limited, One Shoreline Plaza, 800 North Shoreline, Suite 2200, South Tower, Corpus Christi, Texas 78401, USA	39,868	5.22%
Esquire Consolidated Limited³ c/o Bachmann Trust Company Limited, PO Box 175, Frances House, Sir William Place, St. Peter Port, Guernsey, Channel Islands GY1 4HQ	55,559	7.27%
USI-USA II, Limited⁴ 6273 Frank Avenue, N.W., North Canton, Ohio 44720 USA	45,340	5.94%
USI-USA I, Limited⁵ 6273 Frank Avenue, N.W., North Canton, Ohio 44720 USA	34,883	4.57%
Other USI-Investors	15,008	1.97%
European Asset Value Fund 1 Boulevard Royal, L2449 Luxembourg	24,304	3.18%
Dr and Mrs Lanfranconi	1,664	0.22%
RP&C Guernsey PO Box 122, Helvetia Court, South Esplanade, GY1 4EE St Peter Port, Guernsey, Channel Island	1,664	0.22%
Other existing shareholders	94,875	12.41%
Total	763'820	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 share capital of CHF 76'382'000 is divided into 763'820 fully paid up registered shares with a par value of CHF 100 each. All shares have the same voting rights.

4.2 Authorized and conditional capital

The Company does not have any unissued authorized or 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).

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 shareholder 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, 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.

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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 and 4.7.2.

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.

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	2006

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5.1 Members of the Board

Dr iur Victor Lanfranconi (64), 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 (55), 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 (55) 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 (60) 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 (62) 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 BFS US Special Opportunities Trust. He is also a director of RP&C.

Dr Robert Bider (58) has 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 (62) 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.

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 Renaissance US Growth and Income Trust Securinfor BFS US Special Opportunities Trust Vietnam Opportunity Fund Apac Media Plc	Euronext, Belgium London Paris London AIM, London AIM, London

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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.

Mr. David Quint's first period as a director expired on 30 June 2006. Mr. Quint's re-election for a period of 3 years will be proposed at the Annual General Meeting of the Company to be held on 26 April 2006.

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;
- (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);

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- (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.

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 (45), Chief Financial Officer of the Company, the Finance Director of RP&C and the Company, 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 (39), 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 (40), 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.

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Mr. David Quint Jnr (27) 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.
- (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 from time to time by the Board; and

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- 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.

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 140,000 for the year ended 31 December 2005.

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 allotment in the year under review

Members of the Board have not been allotted shares other than the shares allotted in connection with the Reverse Merger (section 6).

7.4 Share ownership

As a result of the Reverse Acquisition USI Limited is the majority shareholder of the Company. Dr Victor Lanfranconi and Mrs Lanfranconi own 2'910'000 shares (89.98%) of USI Limited, which owns 59% 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 13.24%, 6.9%, 7.76%, 2.3%, 2.3% and 4.2% of the issued share capital of RP&C, respectively. RP&C Guernsey.

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7.5 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.

7.6 Loans to members of governing bodies

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

7.7 Highest total compensation

The highest total compensation paid to a director, including the share of management and transaction fees was Chf 1,745,394.

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

PricewaterhouseCoopers 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 2005 financial year by the Annual General Meeting held on 30 June 2005.

The Lead Engagement Partner, Stefan Gerber, responsible for the existing auditing mandate took up office in respect of the financial year ended 31 December 2001.

The Board of Directors proposes to the Annual General Meeting due to be held on 22 May 2006 to re-elect PricewaterhouseCoopers AG as Statutory Auditors and as Group Auditors for the 2006 financial year. In the case of a re-election of PricewaterhouseCoopers AG for the 2006 financial period, the responsible Lead Engagement partner for the existing auditing mandate will be the same as for the 2005 financial year.

10.2 Auditing fees

The total fees for auditing the 2005 consolidated financial statements and all group companies are estimated to be CHF 0.6 million, of which CHF 0.2 million had been invoiced at the date of this report.

10.3 Additional fees

Additional fees of CHF 0.1 million were charged for tax and financial statements advice as well as advice on acquisitions/mergers.

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).

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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
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ISIN: CH0002271010



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

T: +41 1 212 4004
F: +41 1 211 4638

www.usigroupholdings.ch

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