



**USI GROUP HOLDINGS AG  
(FORMERLY REGEDO HOLDING AG)**

**INTERIM REPORT 2006**

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## KEY FIGURES



### USI Group Holdings AG (formerly Regedo Holding AG)

#### KEY FIGURES

Key financial figures	Unit	HI 2006	2005	HI 2005
Rental income	CHF 1,000	13,990	27,378	14,375
Net changes in fair value adjustment on investment property	CHF 1,000	15,568	30,137	8,735
Negative goodwill	CHF 1,000	-	1,207	63
Operating profit before tax excluding fair value adjustments and negative goodwill	CHF 1,000	10,269	22,005	11,184
Net income	CHF 1,000	13,164	23,212	8,504
Net income attributable to equity holders	CHF 1,000	13,164	23,212	8,504
Total assets	CHF 1,000	404,328	388,903	364,525
Shareholders' equity	CHF 1,000	131,693	115,978	102,554

#### KEY PORTFOLIO FIGURES

Number of investment properties	Number	178	178	178
Investment properties (IAS40)	CHF 1,000	336,670	323,237	292,162
Leased usable space	%	100	100	100

#### PER SHARE FIGURES

Earnings per share (EPS)	CHF	17.24	32.24	12.77
EPS excluding fair value adjustments on investment properties and negative goodwill and deferred taxation thereon	CHF	3.26	5.13	3.30
Net asset value per share	CHF	172.41	151.84	134.26



## **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



## CHAIRMAN STATEMENT

The Company is pleased to report its financial results for the six months ended 30 June 2006.

Operating profit, including fair value adjustments on investment property and negative goodwill, for the first six months of 2006 was stated at Chf 25.84 million compared to Chf 19.98 million for the comparable period in 2005.

Profit after taxation was reported at Chf 13.2 million compared to Chf 8.5 million for the same period in 2005, after deductions for deferred tax on fair value gains on investments of Chf 4.2 million and Chf 2.5 million, respectively.

Gross assets at 30 June 2006 were stated at Chf 404.3 million compared to Chf 388.9 million at 31 December 2005. Shareholders funds at 30 June 2006 were stated at Chf 131.7 million compared to Chf 115.98 million at 31 December 2005.

Valuations of investment properties in healthcare sector in the United Kingdom continue to be very strong with continued corporate activity reported in the financial press. 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 progressing with 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 completed the first capital distribution to shareholders in August 2006 following the reverse merger in 2005. As part of the capital distribution exercise, the Company offered shareholders the right to subscribe for new shares up to the amount of the capital distribution. As a result, the Company issued 14,184 new shares at Chf 179 per share, which represented 75% of the capital distribution being reinvested back into the Company.

Full details Company's board members and other relevant information are available from the Company's website at [www.usigroupholdings.ch](http://www.usigroupholdings.ch).

### **USI Group Holdings AG**

Dr iur V. Lanfranconi (Chairman)

Approved by the board: 25 September 2006

**USI GROUP HOLDINGS AG**  
**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDING 30 JUNE 2006**

	Note	2006 Chf	2005 Chf
Revenue		13,990,402	14,375,082
Net gain from fair value adjustments on investment properties		15,568,234	8,735,236
Negative goodwill		-	62,628
Administrative expenses		(4,945,461)	(3,445,877)
Interest income		1,224,144	254,792
<b>Operating profit</b>		<b>25,837,319</b>	<b>19,981,861</b>
Finance costs		(7,765,510)	(7,934,900)
<b>Profit before income tax</b>		<b>18,071,809</b>	<b>12,046,961</b>
Income tax expense		(4,907,366)	(3,543,276)
<b>Profit for the period</b>		<b>13,164,443</b>	<b>8,503,685</b>
<b>Attributable to:</b>			
Equity holders of the Company		13,164,443	8,503,685
<b>Basic earnings per share (Chf per share)</b>	4	<b>17.24</b>	<b>12.77</b>
<b>Diluted earnings per share (Chf per share)</b>	4	<b>16.30</b>	<b>11.13</b>

**USI GROUP HOLDINGS AG**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**FOR THE PERIOD ENDED 30 JUNE 2006**

	Note	30 Jun 2006 Chf	31 Dec 2005 Chf
<b>ASSETS</b>			
<b>Non current assets</b>			
Investment property	6	336,670,302	323,237,485
Intangible assets		16,884,452	17,143,980
Loans and receivables		16,538,290	9,853,101
Accrued income		15,354,081	13,124,342
Derivative financial instruments		635,143	-
		<b>386,082,268</b>	<b>363,358,908</b>
<b>Current assets</b>			
Receivables and prepayments		9,208,681	9,316,030
Derivative financial instruments		348,597	548,212
Cash		8,688,515	15,679,834
		<b>18,245,793</b>	<b>25,544,076</b>
<b>Total assets</b>		<b>404,328,061</b>	<b>388,902,984</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share Capital	5	76,382,000	76,382,000
Share Premium	5	-	-
Fair value hedging reserve		983,740	(2,420,044)
Translation reserve		1,520,096	2,373,980
Retained Earnings		52,806,948	39,642,505
<b>Total Equity</b>		<b>131,692,784</b>	<b>115,978,441</b>
<b>LIABILITIES</b>			
<b>Non current liabilities</b>			
Borrowings	7	188,004,943	197,386,773
Derivative financial instruments		-	2,968,256
Deferred income tax		38,880,291	34,010,158
		<b>226,885,234</b>	<b>234,365,187</b>
<b>Current liabilities</b>			
Borrowings		42,395,107	34,774,567
Trade and other payables		452,621	89,107
Current income tax liabilities		560,557	188,554
Accruals		2,341,758	3,507,128
		<b>45,750,043</b>	<b>38,559,356</b>
<b>Total liabilities</b>		<b>272,635,277</b>	<b>272,924,543</b>
<b>Total equity and liabilities</b>		<b>404,328,061</b>	<b>388,902,984</b>

**USI GROUP HOLDINGS AG**  
**CONSOLIDATED CASH FLOW (UNAUDITED)**  
**FOR THE SIX MONTH PERIOD ENDING 30 JUNE 2006**

	2006 Chf	2005 Chf
<b>Cash flow from operating activities</b>		
Cash generated / (used) by operations	184,014	(427,697)
Interest paid	(7,155,459)	(6,487,795)
Tax received	646,699	0
Net cash used by operating activities	(6,324,746)	(6,915,492)
<b>Cash flow from investing activities</b>		
Business Combination	-	(29,133,259)
Purchase of investment property	(285,932)	(158,175)
Cash paid for loans and receivables	-	-
Interest received	1,059,842	380,928
Net cash generated / (used in) investing activities	773,910	(28,910,506)
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	1,993,453	23,081,900
Repayments of borrowings	(3,751,190)	-
Capital increases	-	18,400,000
New issue costs	-	(2,347,670)
Net cash (used) / generated by financing activities	(1,757,737)	39,134,230
<b>(Decrease) / Increase in cash and cash equivalents</b>	<b>(7,308,573)</b>	<b>3,308,232</b>
<b>Movement in cash and cash equivalents</b>		
At start of period	15,679,834	18,891,719
(Decrease) / Increase	(7,308,573)	3,308,232
Foreign currency translation adjustments	317,254	604,826
At end of period	8,688,515	22,804,777



**USI GROUP HOLDINGS AG**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE SIX MONTHS ENDING 30 JUNE 2006**

	Notes	Share capital Chf	Share premium Chf	Fair value hedging reserve Chf	Translation reserve Chf	Retained earnings Chf	Total Equity Chf
<b>Balance as of 1 January 2005</b>		28,678	46,130,684	(110,325)	655,601	28,127,022	74,831,660
Cash flow hedges - net		-	-	(2,246,159)	-	-	(2,246,159)
Foreign currency translation		-	-	-	2,532,064	-	2,532,064
Net income/(expense) recognised directly in equity		-	-	(2,246,159)	2,532,064	-	285,905
Profit for the half-year		-	-	-	-	8,503,685	8,503,685
<b>Total recognised income for the half-year 30 June 2005</b>		-	-	(2,246,159)	2,532,064	8,503,685	8,789,590
Issue of share capital (USI)	5	36,215	25,313,465	-	-	-	25,349,680
Capital raising fees (USI)	5	-	(2,765,376)	-	-	-	(2,765,376)
Reverse acquisition		(64,893)	(68,678,773)	-	-	(8,264,089)	(77,007,755)
Issue of share capital (Regedo)	5	73,982,000	-	-	-	-	73,982,000
Existing shares (Regedo)	5	2,400,000	-	-	-	-	2,400,000
New shares issued in lieu of dividends	5	-	-	-	-	(3,432,491)	(3,432,491)
<b>Balance as of 30 June 2005</b>		76,382,000	-	(2,356,484)	3,187,665	24,934,127	102,147,308
<b>Balance as of 1 January 2006</b>		76,382,000	-	(2,420,044)	2,373,980	39,642,505	115,978,441
Cash flow hedges - net		-	-	3,403,784	-	-	3,403,784
Foreign currency translation		-	-	-	(853,884)	-	(853,884)
Net income/(expense) recognised directly in equity		-	-	3,403,784	(853,884)	-	2,549,900
Profit for the half-year		-	-	-	-	13,164,443	13,164,443
<b>Total recognised income for the half-year 30 June 2006</b>		-	-	3,403,784	(853,884)	13,164,443	15,714,343
<b>Balance as of 30 June 2006</b>		76,382,000	-	983,740	1,520,096	52,806,948	131,692,784

The schedule above initially reflects the equity and reserves of USI Group Holdings Limited and ends with the equity and reserves of USI Group Holdings AG following the reverse acquisition described in note 3.

The movement on fair value hedging reserve for the six months ended 30 June 2005 and 2006 reflects the mark to market value of interest rate swaps linked to the Group's borrowings.

## **SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

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### **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 USA, the UK 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**

#### **Basis of preparation**

The consolidated 2006 interim financial statements are based on the interim accounts of the wholly owned individual subsidiaries at 30 June 2006 which have been prepared in accordance with uniform accounting policies and valuation principles.

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 interim accounts of the individual subsidiaries at 30 June 2006 which have been drawn up according to uniform Group accounting principles.

The 2006 interim report has been prepared in accordance with IAS 34 (Interim Financial Reporting).

The same accounting and valuation principles have been applied to these financial statements as to those that are described on pages 14 to 22 of the 2005 annual report of USI Group Holdings AG.

#### **Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

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

- Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group
- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

## **SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Accounting policies (Continued)**

- IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;
- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- IFRIC 6, 'Liabilities arising from participating in a specific market - waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

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

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Group's operations;
- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management is currently assessing the impact of IFRIC 9 on the Group's operations and
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. Management is currently assessing the impact of IFRS 7 on the Group's operations.

### **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.

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**3. REVERSE ACQUISITION ACCOUNTING (CONTINUED)**

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 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.

<b>As at 30 June 2005</b>	<b>Number of Shares</b>	<b>Market Value CHF</b>	<b>Costs CHF</b>
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			<u>(24,378)</u>

**4. 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.

	<b>As of 30 June 2006 Chf</b>	<b>As of 30 June 2005 Chf</b>
Net profit attributable to shareholders	13,164,443	8,503,685
Weighted average number of ordinary shares outstanding	763,820	665,878
Basic earnings per share (Chf per share)	17.24	12.77

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.

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**4. EARNINGS PER SHARE (CONTINUED)**

In January 2004 the Company issued CHF 7 million of 4% Senior Unsecured Pre-IPO Notes due in 2011. Each noteholder received warrants attached to the notes which may be exercised up to two years after a public offering of the Company's shares. The warrants entitle the noteholders to subscribe for the Company's shares at a 6.4% discount to the public offering price.

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 30 June 2006 no options had been awarded.

At the Company's AGM held on 22 May 2006 the shareholder's approved the creation of conditional capital, giving the Company the right to issue up to 581,910 shares including shares issuable pursuant to the warrants and stock option plan mentioned above.

Management has calculated that the maximum number of additional ordinary shares that could be issued at 30 June 2006 as 49,827 (2005 – 98,244). Based on this figure, the diluted earnings per share at June 2006 were CHF 16.30 (2005 – CHF 11.13).

**5. SHARE CAPITAL**

	<b>2006 Chf</b>	<b>2005 Chf</b>
<b>Authorised:</b>		
<b>Equity interests:</b>		
809,000 Ordinary shares of Chf 100 each (Regedo)	-	80,900,000
763,820 Ordinary shares of Chf 95.55 each (Regedo)	72,983,001	-
<b>Allotted, called up and fully paid:</b>		
<b>Equity interests:</b>		
763,820 (2004 – 24,000) Ordinary shares of Chf 100 each (Regedo)	-	76,382,000
763,820 Ordinary shares of Chf 100 each (Regedo)	76,382,000	-

	<b>Number of shares</b>	<b>Ordinary shares Chf</b>	<b>Share premium Chf</b>	<b>Total Chf</b>
<b>At 31 December 2004</b>	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)	(68,678,773)
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
<b>At 31 December 2005 and 30 June 2006</b>	763,820	76,382,000	-	76,382,000

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**6. INVESTMENT PROPERTY**

	<b>2006 Chf</b>	<b>2005 Chf</b>
As at 1 January	323,237,485	242,708,334
Extension of properties – H1	285,932	-
Extension of properties – H2	-	772,061
Additions from business combinations – H1	-	36,304,000
Net gains on fair value adjustment – H1	15,107,412	8,735,236
Net gains on fair value adjustment – H2	-	21,401,761
Net changes in fair value adjustments due to exchange differences – H1	(1,960,527)	4,718,147
Net changes in fair value adjustments due to exchange differences – H2	-	8,597,946
As at 30 June 2006 / 31 December 2005	336,670,302	323,237,485
Fire Insurance Value	223,999,993	223,999,993

Bank borrowings are secured on investment property as outlined in note 7.

Valuations of the investment properties were made as at 30 June 2006 by independent property consultants.

The valuation of the investment properties in the UK was conducted by Colliers CRE, UK. Based on the detailed review of relevant information, Colliers CRE concluded that capitalisation rates of between 6.25% - 6.75% were appropriate under market conditions prevailing at 30 June 2006. USI has used 6.75% in preparation of the consolidated financial statements.

The valuation of the investment properties in the US was conducted by Real Estate Asset Counselling Inc, US, using the direct capitalisation of the NOI approach in their valuation. Based on the most recent transactions in the sector reviewed by REAC, the overall direct capitalisation rates ranged between 6.33% and 7.50%.

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% was used for the valuation at 30 June 2006.

**7. BORROWINGS**

The maturity of borrowings is as follows:

	<b>2006 Chf</b>	<b>2005 Chf</b>
Current borrowings	42,395,107	34,774,567
Between 1 and 2 years	14,665,045	4,114,374
Between 2 and 5 years	77,780,049	25,985,855
Over 5 years	95,559,849	167,286,544
Non-current borrowings	188,004,943	197,386,773

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**7. BORROWINGS (CONTINUED)**

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

	2006			2005		
	£	US\$	Chf	£	US\$	Chf
Mortgages	6.55%	-	3.56%	6.90%	-	3.48%
Bonds	-	5.48%	-	-	4.51%	-
Other	9.21%	-	6.11%	-	-	6.11%
Senior Pre-IPO Notes	-	-	4.60%	-	-	4.00%

Total borrowings include secured liabilities (Mortgages, bonds and other borrowings) of Chf 198,101,017 (2005 – Chf 177,001,281). These borrowings are principally secured by the land and buildings of the Group (Note 6). At 30 June 2006 the Group had subordinated borrowings of Chf 23 million (2005 – Chf 23 million) which are primarily secured by a pledge of shares of various subsidiary undertakings.

**8. SUBSEQUENT EVENTS**

On 16 August, 2006 the Group re-financed \$23,000,000 of Guaranteed Floating Rate Notes which were redeemable in full on that date by issuing \$23,000,000 of Floating Rate Notes to an entity of the Nationwide Insurance Group. These Notes are credit enhanced by the QBE Insurance Group. The cost of funds for the first interest period was set at a rate of 6.891% p.a. The Notes are collateralised by the Group's US properties.

At the Company's annual general meeting held on 22 May 2006, the shareholders approved a reduction in the par value of the Company's shares from a nominal value of Chf 100 per share to Chf 95.55 per share. The capital repayment was made to the shareholders on 11 August 2006. The Company also offered shareholders the opportunity to invest in new shares to be issued by the Company from the proceeds of the par value reduction. On 11 August 2006 the Company issued 14,184 new shares at a price of Chf 179.00 per share. The new shares were issued out of conditional capital referred to in Note 4.

**SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**9. SEGMENT INFORMATION**

For the six months ending 30 June 2006

	SEGMENT			
	UK Chf	US Chf	Switzerland Chf	Total Chf
Revenue	11,942,754	1,460,810	586,838	13,990,402
Net gain on fair value adjustment	13,846,665	1,938,463	(216,894)	15,568,234
Negative goodwill of investment property	-	-	-	-
Administrative expenses	(4,154,470)	(325,758)	(465,233)	(4,945,461)
Interest income	1,186,426	36,932	786	1,224,144
<b>Segment result/operating profit</b>	<b>22,821,375</b>	<b>3,110,447</b>	<b>(94,503)</b>	<b>25,837,319</b>
Finance costs - net	(6,565,988)	(823,391)	(376,131)	(7,765,510)
<b>Segment profit before income tax</b>	<b>16,255,387</b>	<b>2,287,056</b>	<b>(470,634)</b>	<b>18,071,809</b>
% of leased useable space	100.0	100.0	100.0	

At the 30 June 2006, 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 owning Post Offices and in the UK and Switzerland that of owning Nursing Homes, although geographical segments are considered primary. Investment properties are leased on the bases described in note 6.

For the six months ending 30 June 2005

	SEGMENT			
	UK Chf	US Chf	Switzerland Chf	Total Chf
Revenue	12,407,452	1,388,869	578,761	14,375,082
Net gain on fair value adjustment	8,735,236	-	-	8,735,236
Negative goodwill of investment property	62,628	-	-	62,628
Administrative expenses	(2,992,347)	(340,513)	(113,017)	(3,445,877)
Interest income	233,917	16,636	4,239	254,792
<b>Segment result/operating profit</b>	<b>18,446,886</b>	<b>1,064,992</b>	<b>469,983</b>	<b>19,981,861</b>
Finance costs - net	(7,170,314)	(532,474)	(232,112)	(7,934,900)
<b>Segment profit before income tax</b>	<b>11,276,572</b>	<b>532,518</b>	<b>237,871</b>	<b>12,046,961</b>
% of leased useable space	100.0	100.0	100.0	



**ADDITIONAL INFORMATION TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**
**Principal shareholdings of the USI Group**

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	Ordinary £ 1	100%	100%
Healthcare Properties LDK Limited	100	Ordinary £ 0.01	100%	100%
Healthcare Properties UK Limited	100	Ordinary £ 1	100%	100%
Healthcare Properties (Oxford) Limited	1	Ordinary £ 1	100%	100%
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%

The Company directly owns the shares of USI Group Holdings Limited. All other subsidiaries are owned indirectly.

**Property investments by segment:**

Located in:	30 June 2006 Chf millions	30 June 2006 %	31 Dec 2005 Chf millions	31 Dec 2006 %	30 June 2005 Chf millions	30 June 2005 %
United Kingdom	266.5	79.2	252.9	78.2	225.2	77.1
United States	39.8	11.8	39.7	12.3	37.5	12.8
Switzerland	30.4	9.0	30.6	9.5	29.5	10.1
	336.7	100.0	323.20	100.0	292.2	100.0

**ADDITIONAL INFORMATION TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Property Details – top 15 by value and greater than 2% of the total investment property portfolio

<i>Name, address</i>	<i>Owner</i> <sup>1</sup>	<i>Owners hip status</i> <sup>2</sup>	<i>Approximate Year of construction</i>	<i>Year of renovation</i>	<i>% of leased usable space</i>	<i>No. of registered beds</i>	<i>As % of Investment Properties Portfolio</i>	<i>Gross internal area m2</i>
<b>United States of America</b> 140 post offices located in 32 states	UPOI	FH	1962-1989	-	100	N/A <sup>4</sup>	11.4	28,498
<b>Switzerland</b> Etzelgut, Etzelstrasse 14, 8038 Zurich	HCPETZ	FH	1931/1983	2005	100	55	8.7	2,249
<b>United Kingdom</b> Manor House, Merton, Bicester, Oxfordshire	HCPO	FH	16 <sup>th</sup> century & 1990s	2003	100	102	7.6	3,990
Walton Progressive School & Resource Centre, Rice Lane, Liverpool, Merseyside	HCSS	FH	1985 & 2001	2005	100	90 <sup>5</sup>	7.1	2,500
Allanbank, Bankend Road, Dumfries	HCPW	FH	2000	-	100	67	6.1	4,530
Rosewell, High Littleton, Bath, Somerset	HCPUK	FH	1998	-	100	94	5.6	3,010
Hunter Units, Beechwood Road, Liverpool, Merseyside	HCPW	FH	1990-1998	2005	100	23	3.1	765
Arthur's Court, 27 Highfield Road, Street, Somerset	HCPUK	FH	1992	-	100	40	2.6	1,280
Thornbury, 58 Thorndale Road, Sunderland	HCPO	FH	2004	-	100	44	2.4	1,540
Lakehouse & Orchard House, Riccall Lane, Kelfield, York	HCPLDK	FH	1970's & 1980	1998	100	61	2.3	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 <sup>4</sup>	2.0	N/A
Stanley Burn House, Station Road, Wylam	HCPUK	FH	1995	-	100	61	2.0	2,040
Lakeview, Chorley Road, Withnell, Chorley, Lancashire	HCPUK	FH	1990s	-	100	57	2.1	1,850
Dovecote, Hugar Road, Gateshead, Tyne & Wear	HCPO	FH	18 <sup>th</sup> Century & 1993/4	1994	100	40	2.0	1,400
<b>Other investment properties</b>	Various	FH			100		32.8	

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 2 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.

**ADDITIONAL INFORMATION TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

## Significant Lessees of USI Group Owned Properties

Name of Lessee	Location	Details of leased properties	Lease period expiry date	Aggregate annual lease payments	Percentage of total lease payments to the USI Group:
<b>United States Postal Service</b>	Salt Lake City, USA	140 US post office facilities	February 2022	USD 2,300,000 (CHF 2,942,000)	12.7%
<b>European Care (UK) Limited</b>	London, UK	11 UK nursing / residential homes	March 2036	GBP 2,340,000 (CHF 5,319,000)	23.0%
<b>European Care (SW) Limited</b>	London, UK	7 UK nursing / residential homes	May 2036 to February 2037 <sup>1</sup>	GBP 943,000 (CHF 2,143,000)	9.3%
<b>European Care (England) Limited</b>	London, UK	8 UK nursing / residential homes	May 2012	GBP 1,231,000 (CHF 2,798,000)	12.1%
<b>European Care (England) Limited</b>	London, UK	1 UK nursing / residential home	December 2037	GBP 797,000 (CHF 1,812,000)	7.8%
<b>European Wellcare Homes Limited</b>	London, UK	8 UK nursing / residential homes and offices	February 2039	GBP 1,677,000 (CHF 3,812,000)	16.5%
<b>European Wellcare Education Limited</b>	London, UK	1 UK school	February 2039	GBP 745,000 (CHF 1,693,000)	7.3%
<b>European Wellcare (Dumfries) Limited</b>	London, UK	1 UK nursing / residential home	February 2039	GBP 643,000 (CHF 1,461,000)	6.3%
<b>topCare Management AG</b>	Zurich , Switzerland	Etzelgut Swiss nursing home	June 2023	CHF 1,174,000	5.0%

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. Current annual licence payments are GBP 708,000 (CHF 1,639,000).

*Note: Income totals are based on annualised projections for 2006*

**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.

<sup>1</sup> 18.0% of the value of leases expire in May 2036, 28.8% expire in August 2036 and 53.2% expire in February 2037.

## **ADDITIONAL INFORMATION TO THE CONSOLIDATED 2006 INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

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### **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**

CCRE's 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 each 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 6.25% - 6.75% was appropriate under market conditions prevailing at 30 June 2006. USI has used a capitalisation rate of 6.75% 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 leases.
- 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 and 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 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 12 months and concluded that the multiples range between 12.75 and 14.0 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 6.33% and 7.50%.

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**

Botta utilises the discounted cash flow method of analysis. This method calculates the capitalised net income value of an undertaking or, in other words, converts future profits into present cash value.

Capitalised Value of Property: In calculating the capitalised value 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 - determined. The difference between the respective earnings and expenses results in the net cash flow which can be positive or negative. This future net cash flow is then recalculated to a present value by using an interest rate or discount factor for future years. The later that cash flow accrues, the lower the present value of such cash flow. Since properties represent very durable values, most properties still possess a significant residual value after the examination period

(normally 20 years) has expired. Therefore, a residual value has to be calculated for each property at the end of the examination period. This residual value will then also be recalculated in order to be expressed as present cash value. The sum of discounted cash flows from the annual earnings and the residual value provides the capitalised income value of the property (DCF-value).

The following basic data is required when applying the DCF method:

- i) Object: name of the property.
- ii) Initial year: determination of the point in time, at which the calculation will be conducted. Normally this will be the present year.
- iii) Examination period: (normally 20 years). Over this period exact information relating to the future earnings and expenses can normally be calculated.
- iv) Discount factor: The discount factor is the assumed interest rate by which future earnings are discounted to the present value. The starting point for the determination of the interest rate is normally the sustainable interest rate for 10 year Federal Bonds. A risk premium is charged additionally to account for market risks. This risk premium will vary for customary properties between 2% and 5% based primarily on the location of the property and the risk of re-renting it. For purposes of valuing Etzelgut, a risk premium of 4% has been applied as it is considered to represent a small risk and a discount factor of 4.5% was used for the valuation at 30 June 2006.
- v) Capitalisation factor, Calculation of Residual Value: When calculating the residual value of a property, a capitalisation factor 0.2% higher than the discount factor is chosen depending on the examination period and the condition of the property.
- vi) Increase in renting costs/rents: Increases in annual costs are estimated and rentals due increased in accordance with the terms of each lease.
- vii) Adjustment Amount: Here extraordinary expenses can be accommodated.

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