PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED

ANNUAL REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2012

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Patrick Hall
Richard Barnes
Christopher Lovell
Jonas Rydell
Neel Sahai

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Fides Corporate Services Limited

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CHAIRMAN'S STATEMENT FOR THE YEAR TO 31 DECEMBER 2012

I am pleased to report the Group's audited consolidated financial results for the year ended 31 December 2012.

Update on strategic review

During the course of 2012, significant progress was made in disposing of non-core assets and those that were either trading or likely to trade with negative cash flows or where the outlook for revenue and capital values was increasingly negative. In July 2012 the Company completed the sale of approximately two thirds of the assets held in the UK and in December 2012 announced the sale of the Group's investments in Switzerland and the US. Finally, the Company announced the sale of two German properties, also in December 2012, repaid debt in that jurisdiction and released equity for working capital for the Group. Whilst there has been a material reduction in net asset value in the process, the Board and its advisers are making every effort to protect the equity in the assets that continue to be held by the Group.

The debt maturity profile of the Group has also been addressed with the announcement in December 2012 of the refinancing of €17.2 million of borrowings in Germany for a seven year term maturing in 2020. As a result of this and the sale transactions referred to above, consolidated leverage has been brought down, and interest costs will fall further as a result of a further refinancing in the UK in April 2013 detailed in the Asset Manager's review below. While I believe that, absent of any further deterioration in trading conditions for the Company's tenants, the greatest challenges are now behind us, the Group will nevertheless continue the strategic review of its remaining assets.

Future operations

Following completion of the disposals referred to above, the Group owns portfolios of properties in the UK and Germany which will generate gross rental income of £7.1 million[1] and finance lease income of £0.9 million for the current financial year. The retained investment properties have been independently valued at 31 December 2012 at an aggregate value of £84.0 million[2], excluding the finance lease asset, with debt totalling £34.2 million, following the recent refinancing in the UK. The Group's weighted average interest rate is currently 4.8% per annum, and the debt will be amortised at the rate of £1.6 million per annum. The Asset Manager's Review below describes the financial position in more detail.

Other matters

Recurring management fees will be reduced in line with the reduction of reported net asset value and non-recurring professional fees are expected to be significantly lower in 2013 than in 2012. The Board is looking to reduce costs further during the course of 2013 and has already announced, in the Half Year Report, that the number of directors has been reduced from seven to five from the beginning of 2013.

The Board will continue to test the market for the Group's assets and refinance debt facilities as they fall due at longer maturities and/or reduced amortisation profiles. Pending the outcome of these matters, the Board will keep its dividend policy under review.

Patrick Hall
Chairman
17 April 2013

[1] Figures in Euros for current income are reflected at an exchange rate of €1.178 :£1
[2] Figures in Euros at 31 December 2012 are reflected at an exchange rate of €1.2234:£1

ASSET MANAGER'S REVIEW

Business Outlook

After the disposal of assets in the UK, Switzerland, Germany and the US which completed between July 2012 and February 2013, the Company's retained portfolios focus on assets in the UK and Germany. All of the assets in the UK are leased and licensed to the European Care Group ("EC") which is owned by Esquire Group ("Esquire") and which was subject to a major restructuring in 2012, including an agreed five-year banking platform and the appointment of a new and highly experienced management team. Approximately 75% of the rental income from assets in Germany is now derived from properties leased to Marseille Kliniken AG ("MK"), a listed operator of healthcare assets in Germany.

In December 2012 the Group secured a €17.5 million, seven-year refinancing of the assets leased to MK from Coreal Bank AG, the existing lender. In addition, the Group completed an £8.5 million three-year refinancing of a part of the UK assets and businesses in April 2013 with the Bank of London and The Middle East PLC, the same bank that has provided debt secured on the rest of the UK assets.

The difficulties facing UK Government finances is expected to continue to provide challenging market conditions for operators in the care home sector with occupancy and fee rate increases under continued pressure. The German care home market has generally been more stable; however there are regulatory changes being planned in parts of Germany which may make conditions more difficult for some operating units in the years ahead.

UK

The Group owns nine cares homes for 432 residents, a school and resource centre catering for 30 children and 70 adults with learning difficulties and a domiciliary care business providing care to individuals in their own residence. Rental income for the UK portfolio is adjusted annually at the rate of increases in the Retail Price Index ("RPI"), subject to a cap of 5% per annum. The Group's income from these assets and businesses increased by 3.3% from 19 February 2013 to £4.9 million per annum, including £0.9 million per annum in respect of finance lease income due in respect of the domiciliary care business.

On 4 July 2012, the Group announced the proposed combination of a majority of the Group's UK portfolio with the assets and business of Esquire in a non-cash transaction which was completed on 25 July 2012 following approval by the Company's shareholders. The Group transferred four subsidiaries which owned 27 care homes leased to EC in exchange for a 20% equity stake in Esquire and a loan note of £2.8 million which will accrue interest at 5% per annum with the principal and accrued interest becoming payable in July 2017. The Company carried the equity investment at £1,000 at 31 December 2012. Certain members of the Company's Board became directors of Esquire and EC from 25 July 2012.

Following the restructuring of Esquire, the management of the European Care business is focused on improving operational performance across its many services over the medium term, including operation of the Company's remaining leased assets and licenced businesses in the UK, which represents 11% of EC's Older People business and 19% of EC's Specialist business.

Ted Smith, Chief Executive of European Care, has commented on the development of business at European Care as follows:

- *I joined European Care with a plan to recover and rebuild the business by appointing experienced management to ensure quality provision of care and support and effective cost control in a challenging environment. Trading in 2013 to date has been tough following a difficult end to 2012. The challenges are primarily in our Older People business, which provides nursing care and accounts for around half of our annual profit. Occupancy in this segment is behind budget and continues to be held back by historic quality issues and a legacy of under investment in the estate. Recruitment of permanent staff is also a challenge and so there has been a reliance on use of agency staff. The external environment in the UK also remains challenging with Local Authorities continuing to face funding cuts and consequently holding back referrals and offering minimal annual fee increases.*

- *In the Specialist business, dealing principally with Learning Disability, Autism, Mental Health and acquired brain injury, occupancy has held up well – although slightly behind budget. The Children and Young People's services also continue to perform well both in residential support and education. The challenge in these areas of the business is to continue the progress we have made with cost control as well as looking for organic growth.*

ASSET MANAGER'S REVIEW (CONTINUED)

- *As a consequence of the challenges to our business we have reforecast the business plan for 2013 to reflect a slower trajectory than in our previous model but with a steady profit improvement through our medium term planning horizon to 2016.*
- *EC is focused on improving training and development at all levels, has introduced a single IT and financial platform and has made good progress on establishing firm foundations on which we can build commercial success.*

Source: European Care April 2013

Germany

The care home property market in Germany remains comparatively more stable than in the UK, although access to debt financing is also challenging in current market conditions. The Group owns eight properties catering for 563 residents in care homes and 154 assisted living flats. The Group uses three different operators in Germany with current gross rental income of €3.6 million. The rents for the German portfolio increase every three or four years by a proportion of the increase in the German Consumer Price Index.

Rental income from the MK group totals €2.7 million or approximately 75% of the German rental income. MK reported on its consolidated half year numbers to 31 December 2012 on 18 February 2013 and confirmed the following:

- *The results for the first six months demonstrate that the measures implemented in order to improve the company's results, for example by focusing on our core areas of expertise of inpatient and outpatient nursing care for the elderly and by means of stringent cost management on the administrative side further improved the economic development of Marseille-Kliniken AG. We are able to increase our EBIT to €8.6 million (2011 - €5.0 million) and improve our occupancy rate to 90.5%. Group revenues were also higher year on year, at €100.3 million (2011 - €96.8 million).*
- *Revenues for the entire 2012/2013 financial year are expected to be slightly above the previous year's figure.*
- *The average number of employees rose in the second quarter of 2012/21013 due to increased capacity utilisation from 4,700 (Q2 2011/2012) to 4,844.*

Source: Marseille Kliniken AG

Financial Review

The audited consolidated income statement and balance sheet look different to previous years to reflect the various transactions that completed in 2012 and early 2013. The income statement reflects income and expenses arising from the sale of assets in the UK and Germany in the same manner as previous years whilst the sale of assets in Switzerland and the US are treated as discontinued businesses since there are no assets retained in these jurisdictions after the sales completed. Rental income and expenses incurred in respect of the Swiss and US investment properties for the year ended 31 December 2012 are aggregated into the £5.9 million "loss for the year from discontinued operations", which is disclosed in a single line in the income statement. The comparative numbers for the prior year have been amended to present a consistent format. The balance sheet includes lines reflecting assets and liabilities "of disposal group classified as held for sale". These lines reflect the disposal of assets in Germany and the US that were executed in 2012 but which completed in 2013. There is a full description of the composition of the loss on discontinued operations and assets and liabilities classified as held for sale set out in Note 18 to the audited financial statements.

Continuing operations

The Group's revenues from continuing operations were £11.9 million for the year ended 31 December 2012 compared to £14.9 million for the same period in 2011. Of the total, £3.1 million related to rent not paid in cash during the first seven months of the year which was exchanged for a £2.8 million loan note (currently valued at £1,000) as part of the disposal of assets in the UK. In addition, total revenue included approximately £0.7 million in respect of the two German properties sold which completed in January 2013.

ASSET MANAGER'S REVIEW (CONTINUED)

There were two debt providers secured by the retained UK assets and businesses with maturities in December 2013 and February 2014 with an aggregate loan to value ratio of 38% based on the independent valuation of the assets at 31 December 2012, excluding amortised debt issue costs and any value attributed to income derived from the finance lease. In April 2013, the debt due to mature in February 2014 was refinanced with the Bank of London and The Middle East PLC that also provided the debt that matures in December 2013. The Group borrowed £8.5 million which was used to repay existing indebtedness, prepayment penalties and transaction costs plus approximately £1.2 million used to augment working capital. The loan to value ratio for the UK portfolio increases to 42% following the completion of this refinancing based on the independent valuations used at 31 December 2012, excluding amortised debt issue costs and any value in respect of the finance lease. The two debt facilities are cross collateralised and guaranteed by the Company.

The Company completed the refurbishment of a property in Berlin during February 2012. The tenant entered into a new 25 year lease and is focused on building up occupancy since re-opening the care home. Rental income for this property re-started in March 2012. Rents for six properties leased to MK increased by 3.4% per annum from July 2012. The Group had borrowed from two German banks with one facility due to mature at the end of March 2013. In December 2012, the Company announced that it had refinanced the loan for €17.5 million with a revised maturity date of 31 December 2020. Debt secured on German assets reflected a loan to value ratio of 42% based on the independent valuation of the assets at 31 December 2012. The other loan of €1.2 million matures in May 2014.

The Group incurred capital expenditure of £2.2 million in respect of the sale of UK properties to EC in July 2012. As part of that transaction, the Company agreed to contribute £100,000 per month to on-going capital expenditure projects undertaken by Esquire. The last payment was made in January 2013. The Company had also indemnified Esquire in respect of liabilities to corporation tax up to 24 July 2012 in respect of the sale of certain UK subsidiaries. The Company estimates that this liability is likely to amount to approximately £0.6 million, which has been fully provided for in the Group's consolidated financial statements and is expected to be paid in the first half of 2013.

The Group currently has no commitments to capital expenditure, although the Group has retained €0.5 million in cash and has a contingent liability to contribute a further €1.5 million should it be necessary to re-develop one of the properties leased to MK in Germany. There are currently no plans for such a development.

Certain operational information by jurisdiction for continuing operations is provided below for the year ended 31 December 2012, splitting the data relating to the UK between those assets subject to the sale in July 2012 and those that remain leased assets/businesses. The data is stated before the allocation of management costs and other general charges.

	UK disposal £ million	**UK retained assets £ million**	**Germany £ million**	**Total £ million**
Rent	4.4	3.9	3.6	11.9
Finance lease income	-	0.9	-	0.9
Interest & prepayment fees	(2.3)	(1.1)	(1.3)	(4.7)
Operating profit	**2.1**	**3.7**	**2.3**	**8.1**
Deferred rent	(3.1)	-	-	(3.1)
Capital Expenditure and Contribution to Capex	(2.4)	-	(0.3)	(2.7)
Amortisation	-	(2.1)	(0.4)	(2.5)
Net cash flow	**(3.4)**	**1.6**	**1.6**	**(0.2)**

The Company incurred negative cash flow in respect of the UK assets sold in July 2012, primarily because of a significant portion of deferred rent and the funding of capital expenditure. This deferred rent was exchanged into the subordinated loan note issued by Esquire Group which is repayable in July 2017 together with interest to accrue at 5% per annum.

ASSET MANAGER'S REVIEW (CONTINUED)

The table below reflects the key movements in investment properties from continuing operations since 31 December 2011 and at 31 December 2012 by jurisdiction.

	UK combination companies £ million	**UK retained assets £ million**	**Germany £ million**	**Total £ million**
Investment property at 31 December 2011*	129.1	51.2	49.6	229.9
Fair value movement	(31.5)	(3.9)	(2.0)	(37.4)
Fair value exchange rate	-	-	(2.2)	(2.2)
Capital expenditure / interest	2.8	-	0.3	3.1
Disposals	(100.4)	-	(9.0)	(109.4)
Investment Property at 31 December 2012	-	47.3	36.7	84.0

* includes capital expenditure and capitalised interest of £9.2 million which together with capital expenditure incurred in the first half of 2012 was written off against fair value movements in 2012.

The Group's short and long term borrowings from continuing operations at 31 December 2012 were £12.3 million and £20.6 million, respectively, compared to £92.8 million and £49.4 million at 31 December 2011. The overall decrease was as a result of the various transactions noted above and amortisation.

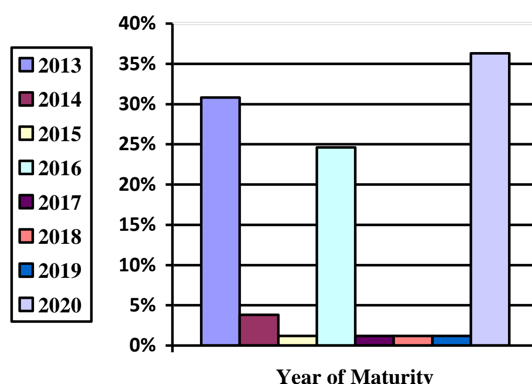
The Group repaid debt of £10.6 million during the year ended 31 December 2012. In January 2013, the Group repaid €5.8 million of debt secured against the two German assets which were sold in December 2012. The Company also completed the sale of the subsidiaries owning 140 properties leased to the US Postal Service in February 2013 which led to the transfer of debt obligations of approximately $18 million.

The table below summarises the Group's debt by jurisdiction following the recent refinancing noted above.

	UK £ million	**Germany £ million**	**Total £ million**
Debt, excluding amortised costs	19.3	15.3	34.6
Interest rate per annum	5.4%	4.1%	4.8%
Amortisation per annum	1.2	0.4	1.6
Debt maturity	December 2013 & April 2016	May 2014 & March 2020	

The graph below summarises the Group's debt by maturity as a percentage of total debt following the recent refinancing noted above.

Maturity Profile of Borrowings (as % of total)



ASSET MANAGER'S REVIEW (CONTINUED)

The Company has guaranteed the debt secured against the UK assets and liabilities and has a contingent liability to fund up to €1.5 million should one of the properties in Germany require redevelopment.

Deferred taxation on fair value gains and business combinations decreased from £19.1 million at 31 December 2011 to £4.3 million at 31 December 2012, primarily as a result of the net fair value reduction in asset values during the period and the various assets disposed of during the year or treated as held for sale.

Total equity decreased from £114.1 million at 31 December 2011 to £57.8 million at 31 December 2012 reflecting the impact of fair value losses and the sale of assets.

The level of administration costs reduced from £3.2 million in 2011 to £2.9 million in 2012. Management fees payable will reduce in line with the reduction in net assets. Based on the net asset position at 31 December 2012 this would equate to savings of £0.6 million in 2013 compared to 2012, assuming no change in the net asset position. Professional fees connected with the strategic review, but not directly attributable to the specific disposals are also expected to be lower in 2013 together with other general professional fees and administrative costs, as a result in a reduction of the operating subsidiaries owned by the Group. In addition, the size of the Board reduced from seven to five with effect from 1 January 2013.

RP&C International
17 April 2013

Independent Group

Independent Group Auditor's Report to the Shareholders of
Public Service Properties Investments Limited
Tortola

British Virgin Islands

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Public Service Properties Investments Limited and its subsidiaries (the 'Group') on pages 9 to 52, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence or effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements for the year ended 31 December 2012 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).

PricewaterhouseCoopers AG

Patrick Balkanyi — Auditor in charge

Michael Ruble

Zurich, 17 April 2013

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PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011 (restated)
Continuing Operations		£	£
Revenue	6	11,869,125	14,932,199
Net loss from fair value adjustments on investment properties	11	(39,443,658)	(18,430,189)
Impairment of goodwill	16	(959,058)	(108,635)
Loss on disposal of subsidiaries	18	(15,739,324)	-
Administrative expenses	7	(2,935,741)	(3,216,874)
Finance income	8 (a)	3,014,250	3,198,630
Operating loss		(44,194,406)	(3,624,869)
Finance costs	8 (b)	(4,989,653)	(7,797,400)
Loss before income tax expense		(49,184,059)	(11,422,269)
Income tax expense	24	832,650	231,875
Loss for the year from continuing operations		(48,351,409)	(11,190,394)
Discontinued Operations			
Loss for the year from discontinued operations	18	(5,870,918)	(4,071,872)
Loss for the year		(54,222,327)	(15,262,266)
Basic and diluted loss per share (in pence)			
From continuing operations	9	(45.89)	(10.90)
From discontinued operations	9	(5.57)	(3.96)
From loss for the year		(51.46)	(14.86)

The notes on pages 14 to 52 form part of these financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011 (restated)
		£	£
Loss for the year		(54,222,327)	(15,262,266)
Other comprehensive income			
Cash flow hedges		(1,233,295)	971,825
Recycling of translation reserve		(611,663)	-
Currency translation differences		(169,299)	(46,762)
Other comprehensive (loss)/income for the year		**(2,014,257)**	**925,063**
Total comprehensive loss for the year		**(56,236,584)**	**(14,337,203)**

The notes on pages 14 to 52 form part of these financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£	£
ASSETS			
Non current assets			
Investment property	11	84,017,922	256,442,372
Investments in associated undertakings	12	1,000	-
Receivable from finance lease	14	9,299,417	9,047,970
Loans and receivables	15	1,751,000	4,351,500
Deferred income tax	23	-	1,383,174
Intangible assets - Goodwill	16	-	2,430,197
		95,069,339	273,655,213
Current assets			
Receivables and prepayments	20	664,912	3,331,496
Restricted cash	20	836,472	1,835,606
Current income tax receivable		-	312,915
Cash and cash equivalents		2,869,610	3,116,828
		4,370,994	8,596,845
Assets of disposal group classified as held for sale	18	22,786,378	-
		27,157,372	8,596,845
Total assets		122,226,711	282,252,058
EQUITY			
Capital and reserves			
Share capital	21	605,722	605,722
Share premium	21	89,736,103	89,786,103
Cashflow hedging reserve		(476,659)	756,636
Translation reserve		1,027,434	1,808,396
Retained earnings		(33,077,484)	21,144,843
Total equity		57,815,116	114,101,700
LIABILITIES			
Non current liabilities			
Borrowings	22	20,610,889	49,417,873
Derivative financial instruments	19	416,301	197,878
Deferred income tax	23	4,311,793	19,096,199
		25,338,983	68,711,950
Current liabilities			
Borrowings	22	12,325,960	92,812,511
Derivative financial instruments	19	60,358	5,236,283
Trade and other payables	25	2,018,570	224,790
Current income tax liabilities		903,936	-
Accruals	26	3,214,405	1,164,824
		18,523,229	99,438,408
Liabilities of disposal group classified as held for sale	18	20,549,383	-
		39,072,612	99,438,408
Total liabilities		64,411,595	168,150,358
Total equity and liabilities		122,226,711	282,252,058

The consolidated financial statements on pages 9 to 52 were approved by the board of directors on 17 April 2013 and were signed on its behalf by:

Patrick Hall
Director
17 April 2013

Neel Sahai
Director
17 April 2013

The notes on pages 14 to 52 form part of these financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£	£
Cash flow from operating activities			
Cash generated from operations	27	9,575,124	13,142,854
Income tax received/(paid)		(4,873)	367,386
Interest paid		(5,551,025)	(7,352,286)
Net cash generated by operating activities		4,019,226	6,157,954
Cash flow from investing activities			
Capital expenditure	11	(2,261,977)	(8,449,568)
Change in restricted cash		231,728	(1,034,311)
Proceeds from sale of investment property	18	8,073,197	-
Interest received		322,229	53,805
Net cash used in investing activities		6,365,177	(9,430,074)
Cash flow from financing activities			
Proceeds from borrowings		-	27,693,095
Repayments of borrowings		(10,565,164)	(30,680,216)
Cost of capital raise	21	(50,000)	(25,882)
Dividends paid	10	-	(5,315,932)
Net cash (used) / generated by financing activities		(10,615,164)	(8,328,935)
Net (decrease) / increase in cash and cash equivalents		(230,761)	(11,601,055)
Movement in cash and cash equivalents			
At start of year		3,116,828	14,745,112
Net (decrease) / increase in cash and cash equivalents		(230,761)	(11,601,055)
Foreign currency translation adjustments		(16,457)	(27,229)
At end of year		2,869,610	3,116,828

The notes on pages 14 to 52 form part of these financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Attributable to equity holders of the Company					
		Share Capital	Share Premium	Cashflow Hedging Reserve	Translation Reserve	Retained Earnings	Total Equity
		£	£	£	£	£	£
Balance as of 1 January 2011		576,466	87,986,369	(215,189)	1,855,158	43,577,913	133,780,717
Comprehensive income							
Profit for the year		-	-	-	-	(15,262,266)	(15,262,266)
Other comprehensive income							
Cash flow hedges – net of tax		-	-	971,825	-	-	971,825
Foreign currency translation		-	-	-	(46,762)	-	(46,762)
Total comprehensive income		-	-	971,825	(46,762)	(15,262,266)	(14,337,203)
Transactions with owners							
Proceeds from shares issued	21	29,256	1,825,616	-	-	-	1,854,872
Costs of share issue	21	-	(25,882)	-	-	-	(25,882)
Dividends	10	-	-	-	-	(7,170,804)	(7,170,804)
Balance as of 31 December 2011		**605,722**	**89,786,103**	**756,636**	**1,808,396**	**21,144,843**	**114,101,700**
Balance as of 1 January 2012		605,722	89,786,103	756,636	1,808,396	21,144,843	114,101,700
Comprehensive income							
Loss for the year		-	-	-	-	(54,222,327)	(54,222,327)
Other comprehensive income							
Cash flow hedges – net of tax		-	-	(1,233,295)	-	-	(1,233,295)
Foreign currency translation		-	-	-	(780,962)	-	(780,962)
Total comprehensive income		-	-	(1,233,295)	(780,962)	(54,222,327)	(56,236,584)
Transactions with owners							
Costs of share issue	21	-	(50,000)	-	-	-	(50,000)
Balance as of 31 December 2012		**605,722**	**89,736,103**	**(476,659)**	**1,027,434**	**(33,077,484)**	**57,815,116**

The notes on pages 14 to 52 form part of these consolidated financial statements.

1. GENERAL INFORMATION

Public Service Properties Investments Limited was incorporated in 2001 and is domiciled in the British Virgin Islands (registered office at Nerine Chambers, Road Town, Tortola, British Virgin Islands) and is the parent company of the PSPI Group. Public Service Properties Investments Limited and its subsidiaries (together "the Group" or "the Company"), is an investment property Group with a portfolio in the UK, Continental Europe and the USA. It is principally involved in leasing 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). The consolidated financial statements are reported in Pounds Sterling unless otherwise stated and are based on the annual accounts of the individual subsidiaries at 31 December 2012, which have been drawn up according to uniform Group accounting principles.

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

Comparative information in the consolidated income statement and consolidated statement of comprehensive income have been restated in order to be consistent with the presentation of certain items as discontinued operations in 2012 as detailed in Note 18.

The Group has adopted the following new standards, amendments to standards and interpretations for the financial year ended 31 December 2012.

Amendments to IFRS 7 'Disclosures - Transfers of financial assets' (effective on 1 July 2011, early application permitted). The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets (e.g. factoring, securitisation), any associated liabilities and it includes additional disclosure requirements in respect of those transfers. The Group has not elected to adopt the amendment before the effective date. The amendment did not have a material impact on the financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year ended 31 December 2012 and have not been early adopted:

IFRS 9 'Financial Instruments' – classification and measurement (effective 1 January 2015, retrospective application, early application permitted). IFRS 9 comprises two measurement categories for financial assets; amortised cost and fair value. All equity instruments are measured at fair value. However, management has an option to present in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. A debt instrument is recognised at amortised cost only if it is the entity's business model to hold the financial asset to collect contractual cash flows and the cash flows solely represent principal and interest. It will otherwise need to be considered at fair value through profit or loss. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 9 'Financial instruments' (effective 1 January 2015, retrospective application, early application permitted). The amendment includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39 without change, except for financial liabilities that are designated at fair value through profit or loss. Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity. The amendment is not expected to have a material impact on the financial statements.

2.1 Basis of preparation (Continued)

IFRS 10, 'Consolidated financial statements', (effective for annual periods beginning on or after 1 January 2013, retrospective application, earlier application permitted if together with IFRS 11, IFRS 12, IAS 27R and IAS 28R). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC-12. IAS 27 is renamed and continues to be a standard dealing solely with separate financial statements. The key changes are as follows:

- Definition of control: focus on the need to have both power and variable returns before control is present and power is the current ability to direct the activities that significantly influence returns. As SIC-12 criteria no longer exists, existing relationships are in the scope of this standard;
- De facto control: it is now embedded in the standard; although not a new concept, now there is explicit application guidance in the standard;
- Principal-agent relationships: new factors for an entity to consider in determining if it is acting as a principal or an agent, which has a direct impact on the decision who has control;
- Potential voting rights: only substantive potential voting rights have to be considered.

The Group has not elected to adopt the standard before the effective date. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 10, 12 and IAS 27 – 'Investment entities'(effective for annual periods beginning on or after 1 January 2013). The amendment provides an exception to the consolidation requirement for entities that meet the specific requirements of an investment entity as defined in the amendment. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Classification and Measurement. The exception is not available on consolidation level unless the parent company also meets the definition of an investment entity. The amendment is not expected to have a material impact on the financial statements.

IFRS 11, 'Joint arrangements', (effective for annual periods beginning on or after 1 January 2013, earlier application permitted if together with IFRS 10, IFRS 12, IAS 27R and IAS 28R). The definition of joint control is unchanged, but the new standard introduces new terminology – joint arrangements is now the umbrella term used to describe all of the arrangements, and there exist only two types i.e. joint operations and joint ventures. The classification is purely based on substance not on legal form. The existing policy choice of proportionate consolidation for joint ventures has been eliminated. Equity accounting according to IAS 28 is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. The amendment is not expected to have a material impact on the financial statements.

IFRS 12, 'Disclosure of interests in other entities', (effective for annual periods beginning on or after 1 January 2013, earlier application permitted). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013) – 'consolidated financial statements, Joint arrangements and Disclosure of interest in other entities: Transition Guidance'. The amendment clarifies, that the date of initial application is the beginning of the annual reporting period in which IFRS 10 is applied the first time. No adjustments are required if an entity would be consolidated/not be consolidated in accordance with IAS 27/SIC-12 and IFRS 10. If the consolidation conclusion under IFRS 10 differs from IAS 27/SIC-12, only the immediately preceding comparative period need to be restated. When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the immediately preceding period. The amendment is not expected to have a material impact on the financial statements.

IFRS 13, 'Fair value measurement', (effective prospective for annual periods beginning on or after 1 January 2013, earlier application permitted). IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value of a liability therefore reflects non-performance risk (that is, own credit risk). The amendment is not expected to have a material impact on the financial statements.

Amendments to IAS 1 'Presentation of items of other comprehensive income', (effective for annual periods beginning on or after 1 July 2012, retrospective application, earlier application permitted). The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on PP&E or re-measurements of net pension assets or liabilities will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is not expected to have a material impact on the financial statements.

IAS 19 (revised) 'Employee benefits', (effective for annual periods beginning on or after 1 January 2013, retrospective application, earlier application permitted). According to IAS 19R, the annual costs for defined benefit plans comprise the net interest costs, measured on the funded status applying the same discount rate for plan assets and DBO. Actuarial gains and losses (renamed to're-measurements') will be recognised immediately in other comprehensive income. The corridor approach or recognition immediately in profit or loss will no longer be permissible. Additional disclosures are proposed regarding the characteristics of the entity's benefit plans, amounts recognised in the financial statements, impacts on future cash flows and risks arising from defined-benefit and multi-employer plans. Finally, the definition of a termination benefit is amended: any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. The amendment is not expected to have a material impact on the financial statements.

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. The Group may invest in subsidiaries that hold properties but do not constitute a business. These transactions are therefore treated as asset acquisitions rather than business combinations.

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All the Group companies have 31 December as their year-end. Consolidated financial statements are prepared using uniform accounting policies for like transactions. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 Changes in ownership interests in subsidiaries without change in control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.3 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.4 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to ‘share of profit/(loss) of associates’ in the income statement.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

2.3 Segmental Reporting

Segmental reporting has been prepared in accordance with IFRS 8 (Segment Reporting).

The chief operating decision maker has been identified as the board of directors, who review the Group’s internal reporting and management information in order to assess performance and allocate resources.

It has been determined that the board of directors reviews management information, considers the business and makes decisions from a geographic perspective. As such, the Group has been organised into the following segments:

- Activities in the United Kingdom
- Activities in Germany
- Activities in Switzerland (discontinued in 2012)
- Activities in the United States of America (discontinued in 2012)

A geographical segment is one that is engaged in providing products or services within a particular economic area which are subject to risks and returns that are different from those of segments operating in other economic areas. Revenues are wholly derived from operating leases and finance leases.

The board of directors assess the performance of the business using a number of measures; however particular emphasis is placed on "adjusted net earnings" (as shown in Note 9). This excludes the effects of any non-cash and exceptional one-off non-recurring income and expenses to give an indication of the Groups' underlying business performance.

Total segment assets and liabilities excludes certain assets and liabilities which are managed on a central basis, these form the reconciliation to total balance sheet assets.

2.4 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of each transaction. 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 and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented net in the income statement within finance costs and finance income respectively, unless they are capitalised. All other foreign exchange gains and losses are presented net in the statement of comprehensive income.

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 rates on those 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 comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Group are reclassified to profit or loss.

The translation rates used are disclosed in Note 5 to the consolidated financial statements.

2.5 Investment property

Property not occupied by the Group but held for long-term rental yields, for capital appreciation or both is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property comprises freehold land and buildings and is initially recognised at historic cost, including related transaction costs and borrowing costs. After initial recognition investment property is held at fair value which 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 prepared annually by independent 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 any cash outflows that could be expected in respect of the property.

Land held under operating leases is classified and accounted for by the Group as investment property when the definition of investment property would otherwise be met. The operating lease is accounted for as if it were a finance lease.

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. In accordance with IAS 40, these items are capitalised at cost as the fair value of the expenditure is not reasonably determinable. 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 where necessary.

2.6 Leases

Finance lease:
When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Group has leased out a business under a licence agreement. The business is in respect of the provision of domiciliary care to clients in their own properties which has been licensed to an independent third party for 35 years with annual increases in line with the Retail Price Index, subject to a maximum increase of 5%. The operator maintains the right to run the Business and receive any benefits/losses derived from running the business.

Operating lease:
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.

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 are transferred to the lessee.

2.7 Loans and receivables

Loans are classified as non-current assets unless management has the express intention of holding the loans for less than 12 months from the balance sheet date, in which case they are included in current assets. The directors determine the classification of the loans at initial recognition and re-evaluate the designation at every reporting date.

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

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

2.8 Impairment of assets for non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses on goodwill are not reversed.

2.9 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges:
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recognised in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, if the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the costs of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In accordance with the Group's policy, a provision of 50% and 100% would be made against any trade receivables outstanding for more than six and twelve months, respectively. The provision is based on historical experience of the Group. 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 recognised in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in 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.

2.12 Share capital

Ordinary shares are classified as equity. Any transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

2.13 Trade payables and other payables

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Dividends

Dividends are recorded as a liability in the Group's financial statements in the period in which they are approved by the Group's shareholders.

2.15 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.

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.

2.16 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

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

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

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

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

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

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. The Group has chosen to capitalise borrowing costs on all qualifying assets irrespective of whether they are measured at fair value or not.

2.21 Finance income and expense

Interest income and expense are recognised within 'finance income' and 'finance costs' in profit or loss using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. 'Finance income' is presented before operating profit and 'Finance costs' are presented after operating profit.

2.22 Earnings per share

The Group has chosen to disclose an adjusted earnings per share figure. This provides an indication of the Group's underlying business performance and excludes significant "non cash" items such as fair value movements on investment properties, the recognition of accrued income, foreign exchange movements and movements in the value of derivative financial instruments charged to the income statement.

3. FINANCIAL AND OTHER RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency and price risk), cash flow and fair value interest rate risk, credit risk and liquidity rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the senior management of the asset manager under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euros and the Swiss Franc. Limited foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. However, most operating entities have limited exposure to exchange risk outside their functional currencies.

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 Continental Europe are managed primarily through borrowings denominated in the relevant foreign currencies, although the directors monitor and permit currency exposure in this regard as an element of its financing strategy.

Historically the Group has not entered into any hedging transactions in respect of the net assets of subsidiaries denominated in currencies other than Pounds Sterling. The Group will review this policy from time to time.

(ii) Cash flow and fair value interest rate risk

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

The table below shows the sensitivity of profit and equity to movements in market interest rates. The impacts are disaggregated into the currencies in which the debt is held:

		£ **2012**	**£** **2011**	**\$** **2012**	**\$** **2011**	**CHF** **2012**	**CHF** **2011**	**€** **2012**	**€** **2011**
Shift in basis points									
Profit impact of increase	50	(113,886)	(235,498)	(61,572)	(68,397)	-	(43,034)	(138,472)	(170,539)
Profit impact of decrease	50	113,886	235,498	61,572	68,397	-	43,034	138,472	170,539
Equity impact of increase	50	191,580	193,398						
Equity impact of decrease	50	(191,580)	(193,398)						

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to rental customers, including outstanding receivables.

The table below shows the credit rating and balance of the three major bank counterparties at the balance sheet date.

Counterparty	31 December 2012 Rating	31 December 2011 Rating	31 December 2012 Balance	31 December 2011 Balance
Bank A	BBB-	BB	398,304	1,975,772
Bank B	A+	A+	810,005	93,181
Bank C	A-	A-	1,300,066	483,983

Bank A is Allied Irish Bank (UK) plc which is a wholly owned subsidiary of Allied Irish Banks plc (“AIB”). In October 2010, Standard and Poor’s downgraded AIB. In December 2010, AIB was effectively nationalised by the Irish Government.

The Group’s concentration of credit risk with non-financial institutions is primarily with its rental customers. Management has assessed that the credit risk is low as the rental contracts are granted to customers with good credit history and due to the good record of recovery of receivables. As a result the Group has not incurred any significant losses.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group’s liquidity reserve on the basis of expected cash flow.

The table below analyses the Group’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the continuing contractual undiscounted cash flows.

At 31 December 2012	Note	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings		13,917,227	6,629,951	2,176,515	14,996,974
Trade and other payables	25	2,018,570	-	-	-
Derivative financial instruments	19	60,358	-	-	416,301
Total		**15,996,155**	**6,629,951**	**2,176,515**	**15,413,275**
At 31 December 2011	**Note**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 Years**
Borrowings		98,218,124	29,026,069	11,609,173	19,312,170
Trade and other payables	25	224,790	-	-	-
Derivative financial instruments	19	5,236,283	-	-	197,878
Total		**103,679,197**	**29,026,069**	**11,609,173**	**19,510,048**

Borrowings in the table above include future interest payable.

Where an interest rate swap is in place, the fixed rate implicit in the agreement has been used to calculate future payments, consequently the position is shown after any cash flows arising from interest rate swaps.

3.1 Financial risk factors (Continued)

In addition, the Group's investment property assets are substantially financed by concentrated debt facilities. As per the debt agreements, £10.6 million (approximately 32%) of the total borrowings are scheduled to be repaid in December 2013 to a sole lender. Additional repayments totalling £1.7 million of the total borrowings are also classified as current as at 31 December 2012 and payable in 2013. In addition, as per the debt agreements £5.5 million (approximately 17%) of the total borrowings were scheduled to be repaid in February 2014 to a sole lender. A three year refinancing of this debt facility was concluded in April 2013 with the same institution which provided the debt facility due in December 2013. If this is not renewed with the existing lender, the Group will seek other lenders to arrange a repayment, although there is a risk that this may not be completed by December 2013.

The Group will monitor the situation.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (if free cash is available for dividend declaration), return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the loan to value ratio. This ratio is calculated as total debt divided by total non-current assets less goodwill and loans and receivables. Debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet).

The Group's intention is to maintain the loan to value ratio below 70%. The loan to value ratios at 31 December 2012 and 2011 were as follows:

	Note	£ 2012	£ 2011
Total borrowings	22	32,936,849	142,230,384
Total non-current assets		95,069,339	273,655,213
Less: Goodwill	16	-	(2,430,197)
Less: Deferred income tax	23	-	(1,383,174)
Less: Loans and receivables	15	(1,751,000)	(4,351,500)
Adjusted non-current assets		93,318,339	265,490,342
Loan to value ratio		35.30%	53.57%

3.2 Fair value estimation

The table below provides disclosure of fair value measurements as at 31 December by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3.2 Fair value estimation (Continued)

2012	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Liabilities				
Financial liabilities at fair value through profit or loss : Ineffective hedges	-	-	-	-
Derivatives used for hedging	-	476,659	-	476,659
Total liabilities	-	476,659	-	476,659

2011	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Liabilities				
Financial liabilities at fair value through profit or loss: Ineffective hedges	-	4,501,305	-	4,501,305
Derivatives used for hedging	-	932,856	-	932,856
Total liabilities	-	5,434,161	-	5,434,161

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting values discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3.3 Other risk factors

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

(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:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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 is 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 sheet 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.

The Group relies on valuations prepared by qualified independent valuation companies. Were the capitalisation rates used in preparing the independent valuation reports to differ by 5% to the rate used by the independent valuer, the net effect of the carrying amount of investment properties after deferred taxation would be an estimated £4.2 million higher (2011 – £9.8 million) or £3.8 million lower (2011 – £8.8 million).

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

(c) Lease classification

The Group has determined that all of its leases are operating leases except for a business under licence agreement (see Note 2.6). The key factor in making the classification between finance leases and operating leases is the estimated life of the properties. The Group estimated the life of the buildings between 70 years and 75 years. The lease periods are 35 years, with approximately 25 years remaining.

(d) Impairment of investments in associates and receivables.

In the process of its impairment assessment, the Group makes certain assumptions regarding the recoverable amount of associate's net assets. These assumptions include recoverability of the associates assets and liabilities not held at fair value, such as deferred tax. Based on the underlying net assets of the associate, the Group has determined the associate value is £1,000. In addition the subordinated secured loan note referred to in Note 15 has been valued at £1,000.

5. FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement and Cash Flow Statement	
			average	average
	31 December 2012	31 December 2012	2012	2011
	£	£	£	£
CHF 1.00	1.47680	1.4526	1.48647	1.42212
USD 1.00	1.61680	1.5456	1.58513	1.60436
EUR 1.00	1.22340	1.1936	1.23328	1.15275

6. REVENUE

	2012	2011 (restated)
	£	£
Rental income	11,869,125	14,932,199

Rental income is stated after reallocation of £437,691 (2011 – £603,793) to interest income as referred to in Note 15.

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

	As at 31 December 2012	As at 31 December 2011 (restated)
	£	£
Less than 1 year	6,769,745	6,780,043
More than 1 year and less than 5 years	19,482,728	19,492,985
More than 5 years	117,852,334	122,444,607
	144,104,807	148,717,635

The investment properties in the UK are leased for an initial period of 35 years. The leases terminate in 2039, although the lessee has the right to renew the leases two years before their expiry, for a further period of 35 years subject to agreement on the revised rent. Each lease is subject to an upward only market rent review every five years from the start of the lease. 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. In July 2012, the Group disposed of most of its UK property portfolio (see Note 18).

The majority of investment properties in Germany are leased for an initial period of 20 years; however the lessee has the right to renew the leases for a further period of 5 or 10 years, subject to the agreement of the revised rent. The rent on the majority of leases is changed every four years from the anniversary of inception, with reference to the German Consumer Price Index.

Discontinued operations

The investment property in Switzerland has been included in discontinued operations in 2012 and future minimum annual rentals are therefore not included in the table above (see Note 18). The investment property was leased for a term of 20 years expiring on 30 June 2023. The lessor had the right to 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 were 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 have been included in discontinued operations in 2012 and future minimum annual rentals are therefore not included in the table above (see Note 18). The investment properties were 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 (£193,911) per annum or 13% of the annual rental. Management had factored this into their analysis of minimum lease payments, and had no reason to believe that this right will be exercised in the foreseeable future.

7. ADMINISTRATIVE EXPENSES

	2012 £	2011 £ (restated)
Third party company administration	151,303	124,682
Management fees	1,446,428	1,809,277
Professional fees	1,139,865	956,031
Audit fees	188,900	247,147
Sundry expenses	9,245	79,737
	2,935,741	3,216,874

8. a) FINANCE INCOME

	2012 £	2011 £ (restated)
Interest income – finance lease	1,130,451	1,188,267
Interest income – other third party	1,271,733	2,010,363
Interest rate swaps: ineffective element of cash flow hedges	133,507	-
Net exchange gains/(losses)	478,559	-
	3,014,250	3,198,630

b) FINANCE COSTS

	2012 £	2011 £ (restated)
Interest on mortgages	4,631,625	6,064,074
Other interest and borrowing expenses	110,121	80,739
Interest on pre IPO notes	-	56
	4,741,746	6,144,869
Interest rate swaps: ineffective element of cash flow hedges	-	1,105,469
Credit enhancement insurance premiums	-	21,405
Repayment penalties	247,907	349,247
Net exchange losses / (gains)	-	176,410
	4,989,653	7,797,400

9. 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.

	December 2012 £	December 2011 £
Loss from continuing operations attributable to shareholders	(48,351,409)	(11,190,394)
Loss from discontinued operations attributable to shareholders	(5,870,918)	(4,071,872)
Total	**(54,222,327)**	**(15,262,266)**
Weighted average number of ordinary shares outstanding	105,365,717	102,696,560
Basic and diluted earnings per share – (pence per share) continuing operations	(45.89)	(10.90)
Basic and diluted earnings per share – (pence per share) discontinued operations	(5.57)	(3.96)
Total	**(51.46)**	**(14.86)**

Adjusted Earnings per Share – Non GAAP

The Directors have chosen to disclose "adjusted earnings per share" in order to provide an indication of the Group's underlying business performance. Accordingly it excludes the effect of items as detailed below.

	Note	December 2012 £	December 2011 £
Net (loss)/profit attributable to shareholder		(54,222,327)	(15,262,266)
Fair value (gain) / loss on investment properties	11	43,165,914	25,833,228
Impairment of goodwill	16	959,058	108,635
Loss on disposal of subsidiaries		18,846,811	-
Deferred taxation on fair value gains	23	(3,266,425)	(3,833,370)
Amortisation of debt issue costs		574,541	393,774
Interest rate swap charge to income statement	8b	(133,507)	1,105,469
One off transaction fees		1,421,825	-
Recycling of translation reserve		(611,663)	-
Movement in deferred taxation asset		856,557	824,558
Repayment penalty on borrowings	8b	247,907	347,646
Impairment provision of receivable		296,101	393,568
Foreign exchange (gains / (losses)		(519,649)	176,410
Current taxation		963,554	299,922
Total Adjusted earnings (pre tax)		8,578,697	10,387,574
Weighted average number of ordinary shares outstanding		105,365,717	102,696,560
Basic adjusted and diluted adjusted earnings per share (pence per share)		**8.14**	**10.11**

10. DIVIDENDS

On 9th November 2011, the board approved a dividend of 2.5p per share with the option for a scrip alternative. Of the 102,440,064 shares in issue at 24th November 2011 (the payment date), 28,245,186 opted for a cash dividend which resulted in a payment of £706,130. The remaining 74,194,878 shareholders opted for the scrip alternative. These scrip shares had an issue price of 63.4p and resulted in the issue of 2,925,653 new shares with a total value of £1,854,872 on 29th November 2011.

No interim dividend for 2012 was paid and the Directors do not recommend a final dividend for 2012.

11. INVESTMENT PROPERTY

	2012 £	2011 £
As at 1 January	256,442,372	272,223,919
Additions resulting from subsequent expenditure	3,283,658	10,963,683
Net (loss) on fair value adjustment - continuing	(39,443,658)	(25,833,228)
Net (loss) on fair value adjustment - discontinued	(3,722,256)	-
Disposals	(108,616,508)	-
Transferred to disposal group classified as held for sale	(21,767,788)	-
Net change in fair value due to exchange differences	(2,157,898)	(912,002)
As at 31 December	84,017,922	256,442,372

Bank borrowings are secured on investment property as outlined in Note 22.

The investment properties were valued as at 31 December 2012 by Colliers International Property Consultants Limited (“Colliers”). The valuation basis is market value and conforms to international valuation standards. Colliers is a qualified independent valuer who holds recognised and relevant professional qualifications and has recent experience in the relevant locations and category of properties being valued.

The valuation of the investment properties in the UK was based on the detailed review of relevant information provided by the Group and the tenant. Colliers concluded that capitalisation rates of between 6.25% and 20.00% (2011 – 6.00% to 13.50%) were appropriate under market conditions prevailing at 31 December 2012, resulting in an average capitalisation rate of 8.27% (31 December 2011 – 7.80%). The Company has applied individual capitalisation rates as advised by Colliers to each investment property in preparation of the consolidated financial statements.

The valuation of the investment properties in Germany was based on the duration of the leases, the future cash flows and after due consideration of transaction activity in the market, Colliers concluded that capitalisation rates of between 7.15% and 9.5% (2011: 6.86% to 7.82%) were appropriate under the market conditions prevailing at 31 December 2012, resulting in an average capitalisation rate of 7.78% (31 December 2011 – 7.22%). The Company has applied individual capitalisation rates as advised by Colliers to each investment property in preparation of the consolidated financial statements.

Additions resulting from subsequent expenditure consist of £559,793 (2011 - £911,350) in relation to capital expenditure on properties in the United Kingdom which has been completed during the year. The balance of £2,723,865 (2011 - £10,052,333) relates to capital expenditure on properties still under construction. This has been reflected under Investment Properties in accordance with IAS 40.

Of the total additions of £3,283,658 (2011 - £10,963,683) in the year, £2,261,997 (2011 - £8,449,568) relates to cash spent on capital expenditure with the balance of £1,021,661 (2011 - £2,514,115) representing accrued interest and capitalised rent. PSPI had a contractual obligation to perform repairs and maintenance on certain investment properties. All capital expenditures relating to the UK properties (totalling £11,566,765) was written off in the year.

The capitalisation rate of the interest capitalised as part of the capital expenditures was 7.0% (2011 – 7.0%).

Investment property held for sale

The valuation of the investment properties in the US was conducted in June 2012 by Real Estate Asset Counselling Inc, US, using the direct capitalisation of the NOI (Net Operating Income) approach in their valuation. This valuation was used to estimate the fair value at December 2012. These properties were approved for sale by the Directors in December 2012 and sold in February 2013 and, as such, have been treated as held for sale as at 31 December 2012 (see Note 18).

Two properties in Germany have been treated as held for sale as at 31 December 2012 as the Directors approved their sale in December (see Note 18).

Disposal of investment property

Disposals during the year relate to the disposal of the majority of the UK property portfolio in July 2012 (see Note 18) totalling £100,543,311 and the disposal of the property in HCP Etzelgut (Switzerland) in December 2012 totalling £8,073,197.

12. INVESTMENTS IN ASSOCIATES

	2012 £	2011 £
As at 1 January	-	-
Recognition of associate (at 25th July 2012)	1,000	-
Share of profit	-	-
Share of cash flow hedging reserve	-	-
As at 31 December	1,000	-

On 4th July 2012, the Company announced that it had entered into a conditional agreement to combine the majority of its UK property portfolio (see Note 17 for listing of legal entities and Note 18 for additional information about the transaction) with the assets and business of the European Care Group, the Group's sole UK tenant in a non-cash transaction. On the 24th July the shareholders of PSPI approved this transaction with an effective completion date of the 25th July.

Esquire Realty Holdings Limited, a wholly-owned subsidiary of Esquire Group Investment (Holdings) Limited ("Esquire"), the holding company of the European Care Group, acquired certain of the Group's subsidiary companies in consideration for issuance of 20% of the ordinary share capital of Esquire and the issuance of a subordinated secured loan note instrument in Esquire Consolidated Investment (Holdings) Limited, a wholly owned subsidiary of Esquire, with the principal amount of £2.8 million (see Note 15).

Esquire has not provided signed financial statements for the year ended 31 December 2011 and is not expected to complete the audit of its results for the year ended 31 December 2012 until later in the year. As a result, it is not possible to confirm the Group's share of results of its associates and its share of the assets and liabilities at this time. However, it is expected that Esquire will report a loss for the years ended 31 December 2011 and 2012.

In order to demonstrate the relative size of Esquire for illustrative purposes, if the Group would have owed 20% of Esquire in 2010, the Group's share of its associate and its share of the asset and liabilities for the year ended 31 December 2010 as prepared under UK GAAP would have been as follows:

Name	Country of Incorporation	Assets CHF	Liabilities CHF	Revenues CHF	Loss CHF	% Interest Held
Esquire Consolidated Group Limited	United Kingdom	61,584,400	(43,268,600)	24,607,200	(4,103,200)	20.00%

The Board of PSPI initially valued the consideration shares at a nominal value of £1,000 on completion of the transaction in July 2012.

Impairment Test of Carrying Value

In accordance with IAS 36, "Impairment of Assets" an annual test has been performed to compare the recoverable amount with the carrying value to ensure that no impairment has occurred other than already provided. Due to the investment carrying value recorded at nominal value, no impairment is required.

13. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Notes	Loans and receivables	Assets at fair value through the profit and loss designated	Derivatives used for hedging	Available for sale	Total
31 December 2012		£	£	£	£	£
Assets as per balance sheet						
Trade receivables - net	20	618,336	-	-	-	618,336
Receivables from finance lease	14	9,299,417	-	-	-	9,299,417
Loans and receivables	15	1,751,000	-	-	-	1,751,000
Other receivables and restricted cash	20	836,472	-	-	-	836,472
Cash and cash equivalents		2,869,610	-	-	-	2,869,610
Total		15,374,835	-	-	-	15,374,835

	Notes	Liabilities at fair value through the profit and loss designated	Derivatives used for hedging	Other financial liabilities	Total
		£	£	£	£
Liabilities as per balance sheet					
Borrowings	22	-	-	32,936,849	32,936,849
Derivative financial instruments	19	-	476,659	-	476,659
Trade and other payables	25	-	-	2,018,570	2,018,570
Total			476,659	34,955,419	35,432,078

13. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The accounting policies for financial instruments have been applied to the line items below:

	Notes	Loans and receivables	Assets at fair value through the profit and loss designated	Derivatives used for hedging	Available for sale	Total
31 December 2011		**£**	**£**	**£**	**£**	**£**
Assets as per balance sheet						
Trade receivables - net	20	1,545,379	-	-	-	1,545,379
Receivables from finance lease	14	9,047,970	-	-	-	9,047,970
Loans and receivables	15	4,351,500	-	-	-	4,351,500
Other receivables and restricted cash	20	3,438,420	-	-	-	3,438,420
Cash and cash equivalents		3,116,828	-	-	-	3,116,828
Total		21,500,097	-	-	-	21,500,097

	Notes	Liabilities at fair value through the profit and loss designated	Derivatives used for hedging	Other financial liabilities	Total
		£	**£**	**£**	**£**
Liabilities as per balance sheet					
Borrowings	22	-	-	142,230,384	142,230,384
Derivative financial instruments	19	4,501,305	932,856	-	5,434,161
Trade and other payables	25	-	-	224,790	224,790
Total		4,501,305	932,856	142,455,174	147,889,335

14. RECEIVABLE FROM FINANCE LEASES

	2012 £	2011 £
Non-current		
Finance leases - gross receivables	27,463,314	27,701,239
Unearned finance income	(18,135,875)	(18,616,631)
	9,327,439	9,084,608
Current		
Finance leases - gross receivables	892,930	859,413
Unearned finance income	(920,952)	(896,051)
	(28,022)	(36,638)
Total receivable from finance leases	9,299,417	9,047,970

	2012 £	2011 £
Gross receivables from finance leases:		
- no later than 1 year	892,930	859,413
- later than 1 year and no later than 5 years	3,707,685	3,568,513
- later than 5 years	23,755,629	24,132,726
	28,356,244	28,560,652
Unearned future finance income on finance leases	(19,056,827)	(19,512,682)
Total receivable from finance leases	9,299,417	9,047,970

The net receivable from finance leases may be analysed as follows:

	2012 £	2011 £
- no later than 1 year	(28,022)	(36,639)
- later than 1 year and no later than 5 years	7,267	(42,245)
- later than 5 years	9,320,172	9,126,854
	9,299,417	9,047,970

The Group has leased out a business under a licence agreement. The business is in respect of the provision of domiciliary care to clients in their own properties which has been licensed to an independent third party for 35 years with annual increases in line with the Retail Price Index, subject to a maximum increase of 5%. The operator maintains the right to run the business and receive any benefits/losses derived from running the business. The remaining life of this licence is 26 years.

The Group does not hold any collateral as security, although the Group has the right to terminate the licence if there is an event of default on any other agreement with the lessee's group. All receivables from finance leases are denominated in Pounds Sterling.

None of the receivable from finance leases were past due nor impaired.

15. LOANS AND RECEIVABLES

	2012 £	2011 £
As at 1 January	4,351,500	4,351,500
Disposals	(2,601,500)	-
Additions	1,000	
As at 31 December	1,751,000	4,351,500

Loans consist of issued redeemable preference shares in lessee companies. These companies lease the investment properties and business licence as referred to in Notes 11 and 14. These preference shares are redeemable at any time. During 2012 redeemable preference shares with a value of £2,601,500 were disposed of by the Group as part of the combination of the majority of its UK property portfolio with the parent group of lessee companies.

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 treated as interest income, as referred to in Note 6, on the same basis as specified in the lease agreements. During the year ended 31 December 2012, £437,691 (2011 – £603,793) was deducted from rental income and included in interest income. The various rental contracts are referred to in Note 6.

The fair values of loans and receivables are as follows:

	31 December 2012 £	31 December 2011 £
Preference shares	1,365,249	5,002,663
	1,365,249	5,002,663

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 14.83% for the preference shares (2011 – 13.63% preference share).

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

	31 December 2012	31 December 2011
Preference shares	10.24%	12.58%

The maximum exposure to credit risk at the reporting date is the fair value of each class of loans and receivables mentioned above. The Group does not hold any collateral as security. All loans and receivables are denominated in Pounds Sterling.

During 2012, the Group was issued a subordinated secured loan note instrument in Esquire Consolidated Investment (Holdings) Limited as partial consideration for the sale of the majority of its UK property portfolio (see Note 18). This loan note has a principal value of £2.8 million with interest at 5% annually; however the Board of PSPI initially valued the note at £1,000 on completion of the transaction in July 2012 reflecting the significant level of post transaction debt of Esquire, which is greater than the independently assessed valuation of Esquire's assets. Interest has not been accrued on this amount as it is not considered to be recoverable.

None of the loans and receivables were past due nor impaired.

16. INTANGIBLE ASSETS – GOODWILL

	2012 £	2011 £
As at 1 January	2,430,197	2,538,832
Impairment recognised in the year	(959,058)	(108,635)
Disposals	(1,471,139)	-
As at 31 December	-	2,430,197

Goodwill arose on the acquisition of the issued share capital of Stonelea Healthcare Limited on 4 September 2007 and represents the excess of the total purchase consideration over the fair value of the net assets acquired.

Impairment tests for goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the group of cash generating units (CGU) to which it relates. In this instance that is the 3 investment properties acquired within HCP Stonelea Limited. This represents the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

In accordance with IAS 36 Impairment of Assets, the carrying amount of the CGU has been compared with its recoverable amount to test if impairment has occurred. The recoverable amount is defined as the higher of value in use and fair value less costs to sell.

The recoverable amount of the CGU has been based upon fair value less costs to sell calculations. These calculations use the independent property valuation performed by Colliers CRE, UK as their basis. It is assumed that it is normal practice for such properties to be sold within its “corporate wrapper” and consequently that any deferred taxation liability in relation to the property should be included in the calculation of the value of the CGU. As such it is assumed that any future buyer of the investment properties would assume a share of the deferred taxation liability.

This test indicated that an impairment of goodwill of £959,058 had occurred in 2012 (2011: £108,635). There were accumulated impairment losses of £1,598,694 at the year-end (2011 - £639,636).

On 25th July 2012, the Group disposed of HCP Stonelea Limited (see Note 18).

17. INVESTMENTS IN SUBSIDIARIES

The subsidiaries are:

	Country of Incorporation	Ownership Percentage 2012	2011
Healthcare Properties UK (Holdings) Limited	BVI	100%	100%
Healthcare Properties (Ashlea) Limited	Guernsey	100%	100%
Healthcare Properties Etzelgut Limited	Guernsey	100%	100%
HCP Wellcare Holdings Limited	Guernsey	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%
Healthcare Properties (I) Limited	UK	100%	100%
PSPI Elliott Celle Limited	BVI	100%	100%
PSPI Germany No 1 Limited	BVI	100%	100%
PSPI Germany No 2 Limited	BVI	100%	100%
PSPI Germany No 3 Limited	BVI	100%	100%
Inactive Companies			
PSPI Elliot Bad Nauheim Limited	BVI	100%	100%
PSPI Elliott Marktredwitz Limited	BVI	100%	100%
PSPI Germany No 4 Limited	BVI	100%	100%
PSPI Germany No 5 Limited	BVI	100%	100%
PSPI Germany No 6 Limited	BVI	100%	100%
PSPI Germany No 7 Limited	BVI	100%	100%
PSPI Germany No 8 Limited	BVI	100%	100%
PSPI Germany No 9 Limited	BVI	100%	100%
HCP Wellcare One Limited	UK	100%	100%
HCP Wellcare Two Limited	UK	100%	100%
HCP Wellcare Three Limited	UK	100%	100%
HCP Wellcare Four Limited	UK	100%	100%
HCP Wellcare Five Limited	UK	100%	100%
HCP Wellcare Six Limited	UK	100%	100%
HCP Wellcare Group Holdings Limited	BVI	100%	100%
USI Healthcare Investment Company Limited	BVI	100%	100%

Companies which are presented as available for sale (see Note 18).

United Properties Holdings Incorporation	USA	100%	100%
United Post Office Investments Incorporation	USA	100%	100%
United Properties Finance Incorporation	USA	100%	100%

Companies that were acquired on 25th July 2012 by Esquire Realty Holdings Limited.

Healthcare Properties UK Limited	Guernsey	Nil	100%
Healthcare Properties (Oxford) Limited	UK	Nil	100%
The Manor House Nursing Home Limited	UK	Nil	100%
Healthcare Properties LDK Limited	Guernsey	Nil	100%
Hollygarth Care Homes Limited	UK	Nil	100%
HCP Stonelea Limited	UK	Nil	100%
Stonelea Healthcare Limited	UK	Nil	100%
Stonelea Developments Limited	UK	Nil	100%

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

18. NON-CURRENT ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND OTHER TRANSACTIONS

a) Non–current assets held for sale

The assets and liabilities related to two investment properties owned in Germany and the United Properties Holding Incorporation group which have been presented as held for sale following the approval of the Directors in December 2012 for their disposal. The completion dates for these transactions were January and February 2013, respectively.

Assets of disposal group classified as held for sale:

	2012 £	2011 £
Investment property	21,767,788	-
Receivables and prepayments	251,184	-
Restricted cash	767,406	-
	22,786,378	-

Liabilities of disposal group classified as held for sale:

	2012 £	2011 £
Borrowings	15,916,052	-
Deferred income tax	1,842,157	-
Accruals	2,686	
Provision for loss on subsidiary	2,788,488	-
	20,549,383	-

b) Discontinued operations

The results of HCP Etzelgut and the United Properties Holding Incorporation group have been treated as discontinued operations as they represent significant segments of the business. An analysis of the result of discontinued operations and the result recognised on the re-measurement of assets or disposal group is as follows:

	2012 £	2011 £
Operating cash flows	(143,667)	1,043,169
Investing cash flows	8,073,197	(517,097)
Financing cash flows	(8,100,104)	(860,828)
	(170,574)	(334,756)

	2012 £	2011 £
Revenue	2,265,384	2,310,639
Net gain/(loss) from fair value adjustments on investment properties	(3,722,256)	(7,403,039)
Loss on disposal of subsidiaries (including recycling of translation reserve)	(2,474,617)	-
Administrative expenses	(1,737,082)	(722,841)
Finance income	18,208	57,996
Finance costs	(834,448)	(791,642)
Income tax expense	613,893	2,477,015
(Loss) for the year from discontinued operations	(5,870,918)	(4,071,872)

18. NON-CURRENT ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND OTHER TRANSACTIONS (Continued)

c) Other transactions

On 4th July 2012, the Company announced that it had entered into a conditional agreement to combine the majority of its UK property portfolio (see Note 17 for listing of legal entities) with the assets and business of the European Care Group, the Group's sole UK tenant in a non-cash transaction. On the 24th July the shareholders of PSPI approved this transaction with an effective completion date of the 25th July.

Esquire Realty Holdings Limited, a wholly-owned subsidiary of Esquire Group Investment (Holdings) Limited ("Esquire"), the holding company of the European Care Group, acquired certain of the Group's subsidiary companies in consideration for issuance of 20% of the ordinary share capital of Esquire and the issuance of a subordinated secured loan note instrument in Esquire Consolidated Investment (Holdings) Limited, a wholly owned subsidiary of Esquire, with the principal amount of £2.8 million (see Note 15).

The Board of PSPI has initially valued the Consideration Shares and the Loan Note at a nominal value of £1,000 each on the completion of the transaction in July 2012, reflecting the significant level of post-transaction debt of Esquire, which will be greater than the independently assessed valuation of Esquire.

The loss recognised on this transaction is calculated as follows:

	Note	£	£
Assets			
Investment Properties	11	100,543,311	
Goodwill	16	1,471,139	
Loans and receivables	15	2,601,500	
Other assets		4,992,855	
Contracted post completion capital expenditure		600,000	
Total assets in disposal group			110,208,805
Liabilities			
Borrowings	22	(81,201,275)	
Derivatives		(4,615,210)	
Deferred tax liability	23	(9,547,310)	
Other liabilities		(691,636)	
Total liabilities in disposal group			(96,055,431)
Release of cashflow hedging reserve on disposal			(1,442,080)
Transaction costs associated with disposal			3,028,030
Loss on disposal			15,739,324

In addition, the Company recognised fair value losses of £19,931,864 included in the Consolidated Statement of Income in respect of the investment properties included in the transaction which completed in July 2012.

Additionally, on 19th December 2012, the Group disposed of its investment property in Switzerland held in HCP Etzelgut Limited. The results of this entity for the year have been included within discontinued operations.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	£	£	£	£
Non-Current				
Interest rate swaps – cash flow hedges	-	416,301	-	197,878
Current				
Interest rate swaps – cash flow hedges	-	60,358	-	5,236,283

Interest rate swaps
The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2012 were £14.2 million (2011 – £67.1 million). At 31 December 2012, the fixed interest rates, excluding lending margins, vary from 1.35% to 1.88% (2011 – from 1.88% to 6.80%).

The interest rate swaps in respect of aggregate mortgage borrowings on the UK investment properties were held in companies disposed of by the Group in 2012 ahead of the maturity of the loans to which they relate in 2012. These were valued at £5,236,283 as at 31 December 2011.

During 2010, a new swap agreement was taken out in relation to borrowings secured on certain German properties, which matches the interest payment and principal repayment profile of the facility. As at 31 December 2012, this was valued at £60,358 (2011 - £197,879), this swap was due to expire in March 2013. As a result of the re-financing of the underlying loan in 2012 (See Note 22) a new swap agreement was taken out prior to the year end to match the renegotiated maturity date of March 2020. At December 2012, this was valued at £416,301 (2011 - £Nil).

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 on-going 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.

The maximum exposure to credit risk at the reporting date is the fair value of each class of derivative financial instruments mentioned above. The Group does not post any collateral as security.

20. RECEIVABLES AND PREPAYMENTS

	2012	2011
	£	£
Trade receivables	618,336	2,806,145
Provision for impairment of trade receivables	-	(1,260,766)
Trade receivables - net	618,336	1,545,379
Other receivables	-	1,602,814
Prepayments	46,576	183,303
Restricted cash	836,472	1,835,606
	1,501,384	5,167,102

Included under restricted cash is an amount of £Nil (2011 - £905,734) in respect of funds held by a trustee in respect of maintenance and amortisation reserves by United Post Office Investments Inc. Also included is an amount of £536,472 (2011 - £629,872) in respect of funds held in a maintenance and liquidity reserve under the terms of a financing agreement taken out in 2010 within the PSPI Elliott Celle Group and an amount of £300,000 (2011 - £300,000) held in a maintenance reserve under the terms of a financing agreement taken out within Healthcare Properties (I) Limited in 2011.

Included in other receivables is an amount of £Nil (2011 - £1,193,546) including accrued interest, lent to European Care as short term working capital.

20. RECEIVABLES AND PREPAYMENTS (Continued)

As at 31 December 2012, trade receivables of £Nil (2011 - £1,546,561) were past due. Provision for impairment of this amount has been made in accordance with the accounting policies of the Group. The ageing of this receivable is as follows:

	£ 2012	£ 2011
Current	618,336	34,843
3 to 6 months	-	89,744
Over 6 months	-	1,421,974
	618,336	1,546,561

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and prepayment mentioned above.

None of the other receivables and prepayments are impaired.

21. SHARE CAPITAL

	31 December 2012 £	31 December 2011 £
Authorised:		
Equity interests:		
500,000,000 Ordinary shares of $0.01 each	2,569,974	2,569,974
Allotted, called up and fully paid:		
Equity interests:		
105,365,717 Ordinary shares of $0.01 each	605,722	605,722

	Number of shares £	Ordinary shares £	Share premium £	Total £
At 1 January 2011	102,440,064	576,466	87,986,369	88,562,835
Scrip dividend	2,925,653	29,256	1,825,616	1,854,872
Costs of share issue	-	-	(25,882)	(25,882)
At 1 January 2012	105,365,717	605,722	89,786,103	90,391,825
Costs of share issue	-	-	(50,000)	(50,000)
At 31 December 2012	105,365,717	605,722	89,736,103	90,341,825

On 9 November 2011 the board approved a dividend of 2.5p per share with the option for a scrip dividend alternative. Of the 102,440,064 shares in issue at 24 November 2011 (the payment date), 28,245,186 opted for a cash dividend which resulted in a payment of £706,130 (see Note 10). The remaining 74,194,878 shareholders opted for the scrip alternative. These scrip shares had an issue price of 63.4p and resulted in the issue of 2,925,653 new shares on 29 November 2011.

22. BORROWINGS

	2012 £	2011 £
Non-current		
Mortgages	20,610,889	49,417,873
	20,610,889	49,417,873
Current		
Mortgages	12,325,960	91,873,848
Other	-	938,663
	12,325,960	92,812,511
Total borrowings	32,936,849	142,230,384

Total borrowings include secured liabilities (Mortgages, bonds and other borrowings) of £32,936,849 (2011 - £141,291,716). These borrowings are secured by the assets of the Group. There are various pledges and covenants included in the loan agreements of the Group which are regularly reviewed and tested to ensure compliance at least annually.

The maturity of borrowings is as follows:

	2012 £	2011 £
Current borrowings	12,325,960	92,812,511
Between 1 and 2 years	6,241,077	26,313,156
Between 2 and 5 years	725,573	8,587,415
Over 5 years	13,644,239	14,517,302
Non-current borrowings	20,610,889	49,417,873

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

	Carrying amounts		Fair values	
	2012 £	2011 £	2012 £	2011 £
Mortgages	20,610,889	49,417,873	19,470,027	49,045,968
	20,610,889	49,417,873	19,470,027	49,045,968

The fair values are based on cash flows discounted using a rate based upon a range of borrowings rate between 4.20% and 6.25% (2011 – 2.50% and 6.75%). The carrying amounts of short-term borrowings approximate their fair-value.

As mentioned in Note 18, on 25 July 2012 a number of the Group’s subsidiary undertakings were acquired by Esquire Reality Holdings Limited. Included in these companies were borrowings of £80,201,275 as at the disposal date.

22. BORROWINGS (Continued)

In December 2012, the Group signed a refinancing agreement with an existing lender of loans totalling £14.1 million (€17.2 million) secured on six properties in Germany that were formally due to be repaid in March 2013. The refinancing comprises two new loans each maturing on 31 March 2020 for an aggregate of £14.3 million (€17.5 million).

In April 2013, the Group completed a three-year refinancing of a debt facility due to be repaid in February 2014, secured against a part of the UK portfolio. Further details are reflected in Note 33.

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

	2012 £	2011 £
Pound sterling	17,602,003	85,610,053
US dollar	-	12,112,246
Swiss franc	-	8,013,218
Euro	15,334,845	36,494,867
	32,936,848	142,230,384

23. 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.

	2012 £	2011 £
Deferred tax liabilities to be recovered after more than 12 months	4,311,793	19,096,199
Deferred tax liabilities due within 12 months	-	-

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

	2012 £	2011 £
Beginning of the year	19,096,199	22,966,355
Income statement (credit)	(3,266,425)	(3,833,370)
Disposals	(9,547,310)	-
Net changes due to exchange differences	(128,514)	(36,786)
Transferred to disposal group classified as held for sale	(1,842,157)	-
End of the year	4,311,793	19,096,199

Deferred income tax liabilities of £1,528,692 (2011: £2,468,440) have not been recognised for the withholding tax and other taxes that would be payable on the un-remitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Un-remitted earnings totalled £6,646,486 at 31 December 2012 (2011: £8,815,827). No deferred income tax liabilities have been recognised for the withholding tax and other taxes concerning un-remitted earnings of subsidiaries as these liabilities will not crystallise due to the tax structure of the Group.

In 2011, the Group elected for early adoption of the amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'. The amendment affects investment properties measured at fair value. The recognition of deferred taxes in relation to those investment properties is based on an expected recovery through a sales transaction. The Group takes the view that this policy provides reliable and more relevant information because it deals more accurately with the future tax liabilities related to such properties. The adoption included retrospective application in the financial statements in accordance with the amendments and IAS 8 'Accounting policies, changes in estimates and errors'. The effect in 2011 was follows:

23. DEFERRED INCOME TAX (Continued)

Period ending	**31 December 2011 (12 months)**
Deferred tax liability as presented in these consolidated financial statements	19,096,199
Deferred tax liability as if IAS 12 amendments were not early adopted	28,041,901
Total change	(8,945,702)
Impact to income tax expense for the period ending	1,970,937
Impact to historical retained earnings	(10,916,639)
Total allocation	(8,945,702)
Adjustment to basic and dilutive earnings per share	(1.92)

The amendment has no impact on the statement of cash flows as the amendment affected non-cash balances only.

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

Deferred tax liabilities:	**Fair value gains from business combinations**	**Fair value gains**	**Total**
	£	**£**	**£**
At 31 December 2011	11,057,272	8,038,927	19,096,199
Charged to the income statement	(303,994)	(2,962,431)	(3,266,425)
Disposals	(9,354,909)	(192,401)	(9,547,310)
Net changes due to exchange differences	-	(128,514)	(128,514)
Transferred to disposal group classified as held for sale	-	(1,842,157)	(1,842,157)
At 31 December 2012	1,398,369	2,913,424	4,311,793

	2012 £	**2011 £**
Deferred tax assets to be recovered after more than 12 months	-	-
Deferred tax assets due within 12 months	-	1,383,174

A deferred income tax asset relating to taxable losses in certain Group companies was recognised in 2011 as it is highly probable that future tax profit will be available against which it can be utilised (See Note 2.17). During 2012, the deferred taxation asset has reduced due to the utilisation of such losses against taxable profits.

24. INCOME TAX EXPENSE

	2012 £	2011 (restated) £
Current tax – continuing operations	511,260	299,922
Deferred tax - continuing operations	(1,343,910)	(531,797)
	(832,650)	(231,875)

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:

	2012 £	2011 (restated) £
Loss before tax per consolidated income statement	(49,184,059)	(11,422,268)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(12,613,439)	(2,710,819)
Expenses not deductible for tax purposes	245,954	27,860
Tax losses for which no deferred tax asset was recognised	11,240,475	2,525,450
(Over)/under provision of tax in previous years	516,230	-
Re-measurement of deferred taxation	(221,870)	(74,366)
Income tax expense	(832,650)	(231,875)

The weighted average applicable tax rate was 25.65% (2011 restated: 23.73%). The increase in the effective tax rate is caused by a change in the profitability of certain of the Group's subsidiaries.

25. TRADE AND OTHER PAYABLES

	2012 £	2011 £
Social security and other taxes	115,859	115,251
Professional fees	1,852,143	-
Other payables	50,568	109,539
	2,018,570	224,790

26. ACCRUALS

	2012 £	2011 £
Interest and other finance costs	368,224	757,055
Amounts owed to related parties (Note 28)	188,278	116,730
Accrued professional fees relating to disposals	2,389,046	-
Other accrued expenses	268,857	291,039
	3,214,405	1,164,824

27. CASH GENERATED FROM OPERATIONS

	Note	2012 £	2011 £
(Loss) for the year:		(54,222,327)	(15,262,266)
Adjustments for non-cash items:			
- Changes in fair value of investment property	11	43,165,914	25,833,228
- Interest expense		5,824,101	7,169,727
- Net foreign exchange losses		(1,131,312)	176,410
- Interest income		(2,420,393)	(3,256,626)
- Income tax expense		(1,446,525)	(3,061,095)
- Impairment of goodwill	16	959,058	108,635
- Provision for receivables		305,226	400,296
- Ineffective element of cash flow hedge	8 (a)	(133,507)	1,105,469
- Loss on disposal of subsidiary	18	12,109,300	-
- Amortisation of debt issue costs		574,541	393,774
- ***Changes in working capital***			
- Changes in receivables and prepayments		(1,565,099)	(728,005)
- Changes in trade and other payables		1,987,122	(21,656)
- Changes in accruals		5,569,025	284,963
Cash generated from operations		9,575,124	13,142,854

28. RELATED PARTY TRANSACTIONS

The estate of Dr. iur. V. Lanfranconi is the majority beneficial owner of USI Group Holdings AG (USIGH AG). Until 26 March 2007, USIGH AG was the ultimate controlling party of PSPI. After this date, USIGH AG retained a significant interest in the company with a 20.07% shareholding (2011: 20.07%). David Quint and Dr Doraiswamy Srinivas are both directors of RP&C International Inc (RP&C), USIGH AG and some of its subsidiaries. William Vanderfelt is also a non-executive director of USIGH AG and was a non-executive director of RP&C until 31 December 2012. RP&C is the parent company of RP&C International (Guernsey) Limited which held 3.73% of the issued ordinary share capital of USIGH AG at 31 December 2012 (31 December 2011 – 6.47%).

The Group was charged £1,022,566 (2011 – £1,655,480) in management fees by RP&C.
At 31 December 2012, management and other transactions fees of £188,278 (2011 - £116,730) was owed by the Group (Note 26) to RP&C.

Esquire Consolidated Limited (“ECL”), one of the shareholders of USIGH AG, has subsidiaries that are customers of the Group. Under various rental contracts total rental income and finance lease income from these contracts for the year ended 31 December 2012 was £8,297,757 (2011 – £11,309,055) and £1,130,451 (2011 - £1,188,269) respectively.

At 31 December 2012, the Group had outstanding loans to subsidiaries of ECL of £1,750,000 (31 December 2011 - £4,351,500). The Group’s investment in property comprises the cost of acquisition plus these loans advanced to the operator on which the initial return, inclusive of interest is charged at between 9.5% - 10.5%.

Doraiswamy Srinivas is a non-executive director of IMMAC Holding AG (the Group’s German property advisor), whilst Richard Borg (a director of RP&C International Limited) is also secretary of IMMAC Capital UK Limited.

In December 2012 the Group entered into binding contracts to sell two Investment Properties in Germany for a gross selling price of €9.7m to an entity managed by IMMAC Holding AG, these sales were completed in January 2013. The Directors, having consulted with the Group’s nominated advisor, Westhouse Securities Limited, consider that the terms of the transaction are fair and reasonable.

In 2011, in the context of the refinancing of a $23 million senior guaranteed debt associated with the Group’s holding of 140 US Post Offices, PSPI had raised a bridge loan of $4.5 million from Manchester Securities Corp, an affiliate of Elliott Associates. The Loan carried interest at the rate of 6% per annum and was repaid before 31 December 2011 from proceeds of other Group financings.

In July 2012, the Company combined the majority of its UK property portfolio with the assets and business of the European Care Group, the Group’s sole UK tenant in a non-cash transaction. Esquire Realty Holdings Limited, a wholly-owned subsidiary of Esquire Group Investment (Holdings) Limited (“Esquire”), the holding company of the European Care Group, acquired certain of the Group’s subsidiary companies in consideration for issuance of 20% of the ordinary share capital of Esquire and the issuance of a £2.8 million subordinated secured loan note instrument in Esquire Consolidated Investment (Holdings) Limited, a wholly owned subsidiary of Esquire (Note 12). Patrick Hall became a director of the holding company of the European Care Group on 25 July 2012 for which he receives a director’s fee at the rate of £36,000 per annum. On the same date, Richard Barnes became a director of Esquire and certain subsidiary for which he receives no director’s fees.

29. DIRECTORS' REMUNERATION

The following directors' fees were recognised in 2012 and 2011:

	2012 £	2011 £
Mr Patrick Hall	45,000	45,000
Mr Richard Barnes	25,000	25,000
Mr Christopher Lovell	25,000	25,000
Mrs Susan McCabe (resigned 31st December 2012)	25,000	25,000
Mr Alan Henderson (resigned 31st December 2012)	25,000	25,000
Mr Jonas Rydell	Nil	Nil
Mr Neel Sahai	25,000	25,000

30. EMPLOYEES

The Company had no employees at 31 December 2012 (2011 – none).

31. ULTIMATE CONTROLLING PARTY

The Company's shares are listed on the London AIM stock market. The Company does not have a controlling party.

32. SEGMENT INFORMATION

Income Statement disclosures	**Continuing Operations**			**Discontinued Operations**		
	UK	**Germany**	**Total**	**US**	**Switzerland**	**Total**
Year ended 31 December 2012	**£**	**£**	**£**	**£**	**£**	**£**
Revenue (Note 6)	8,297,757	3,571,368	11,869,125	1,460,409	804,975	2,265,384
Loss for the year	(46,011,745)	(2,339,664)	(48,351,409)	(2,059,560)	(3,811,358)	(5,870,918)
Net gain or (loss) from fair value adjustments on investment property (Note 11)	(35,435,230)	(4,008,428)	(39,443,658)	(1,127,668)	(2,594,588)	(3,722,256)
Adjusted profit after tax (Note 9)	6,274,870	1,671,620	7,946,490	46,778	585,429	632,207
Year ended 31 December 2011	**£**	**£**	**£**	**£**	**£**	**£**
Revenue (Note 6)	11,309,055	3,623,144	14,932,199	1,439,356	871,283	2,310,639
Loss for the year	(9,862,307)	(1,328,087)	(11,190,394)	(621,641)	(3,450,231)	(4,071,872)
Net gain or (loss) from fair value adjustments on investment property (Note 11)	(15,257,408)	(3,172,780)	(18,430,188)	(1,729,661)	(5,673,379)	(7,403,040)
Adjusted profit after tax (Note 9)	7,122,450	1,930,826	9,053,276	730,516	603,782	1,334,298

32. SEGMENT INFORMATION

	Continuing Operations					Disposal group classified as held for sale		
	UK	**Germany**	**Switzerland**	**US**	**Total**	**US**	**Germany**	**Total**
Year ended 31 December 2012	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Assets								
Investment properties (Note 11) (including capital expenditure)	47,275,914	36,742,008	-	-	84,017,922	13,839,065	7,928,723	21,767,788
Goodwill (Note 16)	-	-	-	-	-	-	-	-
Cash	761,135	1,298,470	810,005	-	2,869,610	-	-	-
Segment assets for reportable segments	**48,037,049**	**38,040,478**	**810,005**	**-**	**86,887,532**	**13,839,065**	**7,928,723**	**21,767,788**
Liabilities								
Total borrowings (Note 22)	17,602,003	15,334,846	-	-	32,936,849	11,417,099	4,498,953	15,916,052
Segment liabilities for reportable segments	**17,602,003**	**15,334,846**	**-**	**-**	**32,936,849**	**11,417,099**	**4,498,953**	**15,916,052**
Year ended 31 December 2011								
Assets								
Investment properties (Note 11) (including capital expenditure)	180,328,474	49,564,676	10,916,135	15,633,087	256,442,372	-	-	-
Goodwill (Note 16)	2,430,197	-	-	-	2,430,197	-	-	-
Cash	2,761,902	483,985	93,183	77,758	3,416,828	-	-	-
Segment assets for reportable segments	**185,520,573**	**50,048,661**	**11,009,318**	**15,710,845**	**262,289,397**	**-**	**-**	**-**
Liabilities								
Total borrowings (Note 22)	101,468,642	20,636,278	8,013,218	12,112,246	142,230,384	-	-	-
Segment liabilities for reportable segments	**101,468,642**	**20,636,278**	**8,013,218**	**12,112,246**	**142,230,384**	**-**	**-**	**-**

Revenues derived from the UK, US and Swiss segments relate entirely to one external customer per segment. German segment revenues derive from three external customers, one of which represents 15% of total Group revenue. Amounts for PSPI Limited, domiciled in the British Virgin Islands are included in the UK Column.

32. SEGMENT INFORMATION (Continued)

A reconciliation of total adjusted profit after tax to profit after tax as per the consolidated income statement is provided as follows:	**31 December 2012 £**	**31 December 2011 £**
Adjusted profit for reportable segments	8,578,697	10,392,502
Fair value movement on investment properties	(43,165,914)	(25,833,228)
Deferred taxation on fair value gains	3,266,425	3,850,170
Amortisation of debt issue costs	(574,541)	(391,974)
Interest rate swap charge to income statement	133,507	(1,105,469)
Movement in deferred tax asset	(856,557)	(841,358)
Movement in impairment provision for receivables	(296,101)	(400,296)
Impairment of goodwill	(959,058)	(108,635)
Repayment penalty on borrowings	(247,907)	(347,646)
Loss on disposal of subsidiaries	(18,846,811)	-
One off transaction fees	(1,421,825)	-
Recycling of translation reserve	611,663	-
Current taxation	(963,554)	(299,922)
Foreign exchange movement	519,649	(176,410)
(Loss)/Profit for the year per income statement	(54,222,327)	(15,262,266)

Reportable segments' assets are reconciled to total assets as follows:	**31 December 2012 £**	**31 December 2011 £**
Total reportable continuing segment assets	86,887,532	262,289,397
Receivable from finance lease (Note 14)	9,299,417	9,047,970
Receivables, prepayments and restricted cash (Note 20)	1,501,384	4,867,102
Deferred income tax (Note 23)	-	1,383,174
Investment in associates	1,000	
Loans and receivables (Note 15)	1,751,000	4,351,500
Current income tax receivable	-	312,915
Total continuing assets per balance sheet	99,440,333	282,252,058
Assets of disposal group classified as held for sale (Note 18)	22,786,378	-
Total assets per balance sheet	122,226,711	282,252,058

Reportable segments' liabilities are reconciled to total liabilities as follows:	**31 December 2012 £**	**31 December 2011 £**
Total reportable continuing segment liabilities	32,936,849	142,230,384
Deferred taxation (Note 23)	4,311,793	19,096,199
Current taxation	903,936	-
Derivatives (Note 19)	476,659	5,434,161
Trade payables and accruals (Note 25 and 26)	5,232,975	1,389,614
Total continuing liabilities per balance sheet	43,862,212	168,150,358
Liabilities of disposal group classified as held for sale (Note 18)	20,549,383	-
Total liabilities per balance sheet	64,411,595	168,150,358

33. SUBSEQUENT EVENTS

The sale of two investment properties in Germany and the shares of United Properties Holding Inc., referred to in Note 11 and Note 18 completed on 3 January 2013 and 28 February 2013, respectively.

On 12 April 2013, the Group completed a refinancing of debt due to be repaid in February 2014. The Group borrowed £8.5 million which was used to repay a facility which has a balance of £7.4 million outstanding at 31 December 2012, to provide a debt service reserve of £0.3 million for the new facility and other transaction expenses, with the balance to be used for working capital within the Group. The new loan matures in April 2016 with an implied interest cost of 5.53% per annum and amortises at the rate of £0.6 million per annum. The new facility is secured against seven investment properties in the UK and the income from the finance lease referred to in Note 14. The lender is the same financial institution that has provided the balance of the lending secured against the assets located in the UK, where £10.6 million was outstanding at 31 December 2012 with the Group agreeing to a cross default provision for the two debt facilities. PSPI has guaranteed the principal on both facilities.

34. BOARD APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements on pages 9 to 52 were approved by the board of directors on 17 April 2013 and were signed on its behalf by:

Patrick Hall
Director
Date: 17 April 2013

Neel Sahai
Director
Date: 17 April 2013

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