PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2014

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Public Service Properties Investments

COMPANY INFORMATION

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Public Service Properties Investments

Chairman's Statement

I am pleased to report the Group's unaudited consolidated financial results for the six month period ended 30 June 2014.

Current operations

The Group owns portfolios of care homes in the UK and Germany which generated gross rental income of £3.5 million[1] and finance lease income of £0.5 million for the first half of 2014. The profit of £0.6 million from continuing operations compares to £1.6 million for the first half of 2013, with the variance mainly arising from the impact of non-cash foreign currency changes. Net finance costs for the first half of 2014 reflect £0.7 million of adverse foreign exchange movements compared to a gain of £0.9 million in the first half of 2013.

The Group's investment properties, excluding the finance lease asset, have been independently valued[2] at 30 June 2014 at an aggregate value of £70.3 million[3] compared to £72.1 million[3] at 31 December 2013 with part of the reduction due to exchange rate differences. Total debt, net of amortised financing costs, at 30 June 2014 was £29.7 million[3] (31 December 2013 - £31.7 million[3]). Total borrowings net of cash balances and debt service reserves represented 31.1% of total non-current assets at 30 June 2014 (31 December 2013 - 33.5%).

Total equity at 30 June 2014 remained unchanged at £51.8 million compared to 31 December 2013, and the Net Asset Value ("NAV") 49.2 pence per share[4]. The adjusted NAV, excluding deferred taxation liabilities, was 51.4 pence per share (31 December 2013 - 51.2p).

Update on strategic review

The stability of the Group's trading continued throughout the first half of 2014. It is pleasing to note that the restructuring of Embrace, the tenant of all our U.K. properties, has been completed, and this should free up management time to focus more on its day-today operations, although significant challenges remain. The improvement in occupancy at the Group's UK care homes in the second quarter of 2014 and which has continued into the third quarter is encouraging and, if continued, should lead to improved rent cover over time.

The Company continues to test the market for all of its assets and will make announcements on any progress, as and when it is appropriate.

Other matters

The Company will continue to keep the dividend policy under review, but the Board does not declare the payment of an interim dividend.

The Asset Manager's Review below describes the financial position in more detail.

Patrick Hall
Chairman
26 September 2014

[1] Figures in Euros for current income are reflected at an average exchange rate of €1.218:£1.
[2] The valuations are stated gross of certain costs of up to 7% that a purchaser may incur if the assets were sold.
[3] Figures in Euros at 30 June 2014 are reflected at an exchange rate of €1.2492:£1 and €1.1979:£1 at 31 December 2013.
[4]Total equity divided by the number of ordinary shares in issue at 30 June 2014 and 31 December 2013.

Public Service Properties Investments

ASSET MANAGER'S REVIEW

Business Outlook

The property portfolios owned by the Group during the first half of 2014 are located in the UK and Germany and all of the UK assets are leased and licensed to the Embrace Group ("Embrace"). Approximately 75% of the rental income from assets in Germany is derived from properties leased to Marseille Kliniken AG ("MK"), which de-listed as a public company in Germany in August 2014.

As at 30 June, 2014, the Group had outstanding borrowings of £16.6 million secured against the UK portfolio, which are guaranteed by the Company, and borrowings of £13.5 million secured against the German portfolio. The Company has guaranteed to fund approximately £1.2 million of development costs at one of the properties in Germany, although there are no plans to commence any development at this time.

UK

The Group owns nine care 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 homes. Rental income for the UK portfolio is adjusted annually at the rate of increases in the Retail Price Index. The Group's income from these assets and businesses increased by 2.8% from 19 February 2014 to £5.1 million per annum, including £0.9 million per annum in respect of finance lease income due from the licencing of a domiciliary care business.

Germany

The Group owns eight properties catering for 563 residents in care homes and 154 assisted living flats. The Group leases to 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.

Financial Review

Total unaudited annual rental and finance lease income for the first half of 2014 was £4.0 million. The Group's property portfolio remains fully let and all rental income continues to be paid in full.

Administration costs were £1.0 million for the six months ended 30 June 2014 compared to £1.1 million for the same period in 2013 with management fees 21% lower at £0.3 million whilst other professional fees were 9% higher at £0.6 million.

Independent valuations of the Group's investment property assets at 30 June 2014 were undertaken by Colliers International Healthcare UK LLP ("Colliers"). The gross aggregate capital value[1] of the investment properties at 30 June 2014 decreased by 2.5% compared to 31 December 2013. The UK portfolio valuation increased by £2.8 million to £40.5 million following a re-assessment of the covenant risk of the Company's tenant after its restructuring, which was announced in April 2014. The German portfolio valuation decreased by £4.6 million to £29.8 million comprising £3.3 million in constant currency and £1.3 million as a result of foreign exchange losses. Colliers assessed that the covenant strength of MK, which operates six of the Group's eight care homes in Germany, had weakened following a decision to de-list the equity of the holding company from Germany, which was announced in June 2014.

The increase in the valuation of the UK investment portfolio reflected a decrease in the average Capitalisation Rate[1] from 10.6% at 31 December 2013 to 10.2% at 30 June 2014. Individual capitalisation rates varied between 6.0% and 30.0%, indicating a wide variance in operational performance across the portfolio. The Group's UK tenant was restructured in April 2014 following its acquisition by two investment firms, which resulted in a substantial reduction in its consolidated debt. Average occupancy of the Group's UK care homes improved from 80% of available beds at 31 December 2013 to 84% at 30 June 2014. Occupancy at the school and resource centre declined from 90% at 31 December 2013 to 88% at 30 June 2014. The Company is pleased to report that Embrace reported a 33% increase in the operating profit, before rent and central overheads, across the Group's care home portfolio in the second quarter of 2014 compared to the first quarter, reflecting the impact of the improvement in occupancy at the care homes. Operating profit at the school and resource centre was 3.5% lower in the second quarter. The improvement in occupancy at the care homes is largely as a result of Embrace starting to address the operational issues that were noted in the Company's trading update issued on 30 January 2014. Colliers reported to the Company that the tenant will need to invest in the portfolio in the short and medium term to maintain and improve operational performance. The Company is aware that Embrace has funded expenditure to refurbish some of the properties in recent months and that it has plans for other capital expenditure in the immediate future.

The decline in the value of the German investment portfolio reflected an increase in the average Capitalisation Rate[1] from 8.5% at 31 December 2013 to 9.4% at 30 June 2014. Individual capitalisation rates varied between 7.0% and 14.5% at 30 June 2014. Average occupancy across the portfolio was stable at approximately 81% of available beds up to the end of the first quarter of 2014 and is expected to have been maintained in the second quarter of 2014. Colliers reduced the valuation on the homes operated by Marseille Kliniken following the announcement to de-list its shares from the German stock market. However, the Group does not expect this to result in any change in its relationship with MK. Colliers also further reduced the valuation for the three care homes located in North Rhine Westphalia ("NRW") where regulatory changes due to be introduced in 2018 would, as currently drafted, result in a reduction of permitted dual occupancy rooms, leading to a reduction in available beds without further investment to re-configure or extend the properties. PSPI's local adviser in Germany believes that the planned provisions are likely to be amended, in favour of care home operators, due to the overall impact of the changes in NRW.

The table below reflects the movements in investment properties between 31 December 2013 and 30 June 2014.

	UK £ million	**Germany £ million**	**Total £ million**
Investment Property at 31 December 2013	37.7	34.4	72.1
Fair value movement	2.8	(3.3)	(0.5)
Fair value exchange rate	-	(1.3)	(1.3)
Investment Property at 30 June 2014	40.5	29.8	70.3

During the first half of 2014, the Company repaid £1.6 million of debt, including approximately €1.0 million in respect of a debt maturing in May 2014. Following this repayment, two of the eight properties owned in Germany are held free of any third party debt. In December 2013, the Company agreed with the lender secured by the UK portfolio to utilise 50% of free cash flow from any asset disposals in Germany to accelerate amortisation of debt secured against the UK portfolio. The remaining German debt amortises on a monthly basis, with a final maturity in March 2020, although debt prepayments will occur should any of the secured assets be sold prior to maturity of the debt.

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

	UK £ million	Germany £ million	Total £ million
Debt, excluding amortised costs	16.6	13.5	30.1
Interest rate per annum	5.6%	4.1%	4.9%
Amortisation per annum	1.2	0.2	1.4
Debt maturity	April 2016	March 2020	

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. There are currently no plans to commence a redevelopment at this property.

The Group continues to generate sufficient cash to meet all of its scheduled interest payments, debt repayment obligations and other operational costs. Loan to Value[2] at 30 June 2014 was 33.2% and 45.3% for the portfolios in the UK and Germany, respectively and 37.7% for the Group as a whole. The consolidated Loan to Value, net of cash balances and debt service reserves at 30 June 2014, was 31.1% (31 December 2013 – 33.5%).

Deferred taxation on fair value gains and business combinations increased from £2.1 million at 31 December 2013 to £2.3 million at 30 June 2014, primarily as a result of the net fair value gains on the UK portfolio during the period.

Total equity at 30 June 2014 remained unchanged at £51.8 million compared to 31 December 2013. The Net Asset Value per share[3] ("NAV") is 49.2 pence per share and the Adjusted NAV, excluding deferred taxation liabilities, was 51.4 pence per share.

RP&C International
26 September 2014

Notes:
[1] The valuations are stated gross of certain costs of up to 7% that a purchaser may incur if the assets were sold. Capitalisation Rate is represented by the net rental income receivable divided by the market value of the properties from which the rental income is derived.
[2] Total short and long term borrowings expressed as a percentage of total non-current assets.
[3] Total equity divided by the number of ordinary shares in issue at 31 December 2013.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2014

	Note	Period Ended 30 June 2014	Period Ended 30 June 2013	Year Ended 31 Dec 2013
		£ (unaudited)	£ (unaudited)	£ (audited)
Continuing Operations				
Revenue	4	3,433,955	3,429,571	6,874,478
Net loss from fair value adjustments on investment properties	9	(459,610)	(673,780)	(12,773,056)
Impairment of loan	11	-	-	(1,749,000)
Gain/(loss) on disposal of subsidiaries	14	-	-	137,590
Administrative expenses	5	(957,180)	(1,132,641)	(2,316,623)
Finance income	6a	580,789	1,470,602	1,637,544
Operating profit/(loss)		2,597,954	3,093,752	(8,189,067)
Finance costs	6b	(1,723,137)	(1,406,602)	(2,562,590)
Profit/(loss) before income tax		874,817	1,687,150	(10,751,657)
Income tax expense		(323,313)	(118,840)	2,165,824
Profit/(loss) for the period from continuing operations		551,504	1,568,310	(8,585,833)
Discontinued Operations				
Gain for the period from discontinued operations		-	1,441,274	2,235,364
Profit/(loss) for the period		551,504	3,009,584	(6,350,469)
Basic and diluted earnings/(loss) per share (in pence)				
From continuing operations	7	0.52	1.49	(8.15)
From discontinued operations	7	-	1.37	2.12
From earnings/(loss) for the period	7	0.52	2.86	(6.03)

The notes on pages 11 to 25 are an integral part of these interim condensed consolidated financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2014

	Period Ended 30 June 2014	Period Ended 30 June 2013	Year Ended 31 Dec 2013
	£ (unaudited)	£ (unaudited and restated)	£ (audited)
Profit/(loss) for the period/year	551,504	3,009,584	(6,350,469)
Other comprehensive income			
Items that may be subsequently reclassified to income statement:			
Cash flow hedges	(489,504)	391,141	338,715
Currency translation differences	(83,834)	34,952	6,362
Other comprehensive (loss)/income for the period/year	**(573,338)**	**426,093**	**345,077**
Total comprehensive (loss)/income for the period/year	(21,834)	3,435,677	(6,005,392)

The notes on pages 11 to 25 are an integral part of these interim condensed consolidated financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2014

	Note	As at 30 June 2014 £ (unaudited)	As at 30 June 2013 £ (unaudited)	As at 31 Dec 2013 £ (audited)
ASSETS				
Non current assets				
Investment property	9	70,303,167	85,039,983	72,092,779
Investments	10	1,000	1,000	1,000
Receivable from finance lease		9,497,923	9,306,885	9,492,854
Loans	11	2,000	1,751,000	2,000
		79,804,090	96,098,868	81,588,633
Current assets				
Receivables and prepayments		502,949	706,063	478,947
Restricted cash		1,514,536	1,192,642	1,209,828
Cash and cash equivalents		3,768,595	4,448,120	4,001,022
		5,786,080	6,346,825	5,689,797
Total assets		85,590,170	102,445,693	87,278,430
EQUITY				
Capital and reserves				
Share capital	12	605,722	605,722	605,722
Share premium	12	89,736,103	89,736,103	89,736,103
Cash flow hedging reserve		(627,448)	(85,518)	(137,944)
Translation reserve		949,962	1,062,386	1,033,796
(Accumulated deficit)/Retained earnings		(38,876,449)	(30,067,900)	(39,427,953)
Total equity		51,787,890	61,250,793	51,809,724
LIABILITIES				
Non current liabilites				
Borrowings		28,281,704	22,869,983	29,418,283
Derivative financial instruments		627,448	85,518	137,944
Deferred income tax liability	14	2,335,127	4,315,522	2,127,287
		31,244,279	27,271,023	31,683,514
Current liabilities				
Borrowings		1,416,138	11,531,872	2,323,921
Trade and other payables		158,696	136,255	279,731
Current income tax liabilities		377,778	628,529	448,565
Accruals		605,389	1,627,221	732,975
		2,558,001	13,923,877	3,785,192
Total liabilities		33,802,280	41,194,900	35,468,706
Total equity and liabilities		85,590,170	102,445,693	87,278,430

The notes on pages 11 to 25 are an integral part of these interim condensed consolidated financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2014

	Note	Period ended 30 June 2014 £ (unaudited)	Period ended 30 June 2013 £ (unaudited)	Year ended 31 Dec 2013 £ (audited)
Profit/(loss) for the period attributable to equity		551,504	3,009,584	(6,350,469)
Adjustments for non-cash items				
Interest expense	6b	986,536	1,078,057	2,101,431
Net foreign exchange (gains)/losses	6a	736,601	(907,588)	(328,422)
Changes in fair value of investment propety	9	459,610	673,780	12,773,056
Impairment of loan	11	-	-	1,749,000
Interest income	6a	(580,789)	(563,014)	(1,309,052)
Income tax exepnse		323,313	118,840	(2,168,132)
Proceeds from finance lease		464,767	451,520	907,025
Cash payment of transaction costs		-	(3,255,946)	-
Provision release for loss on dispodal of subsidiairy		-	(2,345,276)	-
Waived receivables		-	-	192,086
Amortisation of debt issue costs		200,368	257,766	561,106
Changes in workings capital:				
Changes in receivables and prepayments		76,526	968,732	432,688
Changes in trade and other payables		(128,190)	-	(1,892,605)
Changes in accruals		(318,886)	(704,698)	(4,370,526)
Cash generated/(used) from operations		2,771,360	(1,218,243)	2,297,186
Cash flow from operating activities				
Interest paid		(787,158)	(1,080,403)	(2,354,645)
Income tax received/(paid)		(174,591)	(414,030)	(484,641)
Net cash generated/(used) by operating activities		1,809,611	(2,712,676)	(542,100)
Cash flow from investing activities				
Change in restricted cash		(335,992)	(356,170)	(357,805)
Proceeds from sale of subsidiaries		-	1,090,805	1,190,805
Proceeds from sale of investment property		-	7,646,788	7,895,230
Interest received		571	1,731	3,169
Net cash (used)/generated in investing activities		(335,421)	8,383,154	8,731,399
Cash flow from financing activities				
Proceeds from borrowings		-	8,726,534	7,738,142
Costs associated with new borrowings		(53,508)	(537,014)	-
Repayments of borrowings		(1,572,298)	(12,366,645)	(14,827,134)
Net cash (used)/generated by financing activities		(1,625,806)	(4,177,125)	(7,088,992)
(Decrease)/increase in cash and cash equivalents		(151,616)	1,493,353	1,100,307
Movement in cash and cash equivalents				
At start of period/year		4,001,022	2,869,610	2,869,610
(Decrease)/increase		(151,616)	1,493,353	1,100,307
Foreign currency translation adjustments		(80,811)	85,157	31,105
At end of period/year		3,768,595	4,448,120	4,001,022

The notes on pages 11 to 25 are an integral part of these interim condensed consolidated financial statements.

PUBLIC SERVICE PROPERTIES INVESTMENTS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD ENDED 30 JUNE 2014

	Attributable to equity holders of the Company					
	Share capital £	**Share premium £**	**Cashflow hedging reserve £**	**Translation reserve £**	**Accumulated deficit/ Retained earnings £**	**Total equity £**
Balance as of 1 January 2013 (audited)	**605,722**	**89,736,103**	**(476,659)**	**1,027,434**	**(33,077,484)**	**57,815,116**
Comprehensive income						
Loss for the period	-	-	-	-	3,009,584	3,009,584
Other comprehensive income						
Cash flow hedges – net of tax	-	-	391,141	-	-	391,141
Foreign currency translation	-	-	-	34,952	-	34,952
Total comprehensive income	-	-	391,141	34,952	3,009,584	3,435,677
Transactions with owners						
None	-	-	-	-	-	-
Balance as of 30 June 2013 and 1 July 2013 (unaudited)	**605,722**	**89,736,103**	**(85,518)**	**1,062,386**	**(30,067,900)**	**61,250,793**
Comprehensive income						
Loss for the period	-	-	-	-	(9,360,053)	(9,360,053)
Other comprehensive income						
Cash flow hedges – net of tax	-	-	(52,426)	-	-	(52,426)
Foreign currency translation	-	-	-	(28,590)	-	(28,590)
Total comprehensive income	-	-	(52,426)	(28,590)	(9,360,053)	(9,441,069)
Transactions with owners						
None	-	-	-			
Balance as of 31 December 2013 and 1 January 2014 (audited)	**605,722**	**89,736,103**	**(137,944)**	**1,033,796**	**(39,427,953)**	**51,809,724**
Comprehensive income						
Profit for the period	-	-	-	-	551,504	551,504
Other comprehensive income						
Cash flow hedges – net of tax	-	-	(489,504)	-	-	(489,504)
Foreign currency translation	-	-	-	(83,834)	-	(83,834)
Total comprehensive income	-	-	(489,504)	(83,834)	551,504	(21,834)
Transactions with owners						
None	-	-	-	-	-	-
Balance as of 30 June 2014 (unaudited)	**605,722**	**89,736,103**	**(627,448)**	**949,962**	**(38,876,449)**	**51,787,890**

The notes on pages 11 to 25 are an integral part of these interim condensed 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, and Continental Europe. 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 interim condensed consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 "Interim Financial Reporting", published by the International Accounting Standards Board (IASB). The interim condensed consolidated financial statements are reported in Pound Sterling unless otherwise stated.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's most recent Annual Financial Statements, pages 13 to 20, in respect of the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ('IFRS'). These condensed consolidated interim financial statements for the six months ended 30 June 2014 and the comparative figures for the six months ended 30 June 2013 are unaudited. The extracts from the Group's Annual Financial Statements for the year ended 31 December 2013 represent an abbreviated version of the Group's full accounts for that year, on which the Auditors issued an unqualified audit report.

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

The Group has adopted the following new standards, amendments to standards and interpretations for the financial period ended 30 June 2014, and year ended 31 December 2014.

IAS 32 (amendment) 'Offsetting financial assets and financial liabilities', (effective for annual periods beginning on or after 1 January 2014, retrospective application, earlier adoption permitted). The amendment to the application guidance in IAS 32 clarifies some of the requirements for offsetting financial assets and liabilities. Offsetting on the face of the balance sheet is only required, when the entity has a legally enforceable right to set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. Clarification, that the right to set-off must be available today (and not contingent on a future event). Further, the right to set-off must be legally enforceable in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment did not have a material impact on the financial statements.

Annual Improvement to IFRSs 2010-2012 Cycle - IAS 24 'Related party disclosures' (effective 1 January 2014). The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendment did not have a material impact on the financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle - IAS 40 'Investment property' effective date 1 January 2014. The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The amendment did not 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 Principles of consolidation (continued)

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 Amendments to accounting and valuation principles

There have been no amendments to accounting or valuation principles during the period ended 30 June 2014.

3. FINANCIAL 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 minimize 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.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013. There have been no significant changes in the risk management policies since prior year end.

3.2 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.

During 2013, the refinancing of debt significantly altered the maturity profile of total borrowings such that £2.3m of the total borrowings was scheduled to be repaid during 2014, of this amount £1.6m has been paid to June 2014. The Group anticipates that the balance can be funded through existing cash balances and operating cash flows.

3.3 Fair value estimation

In 2014, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. In 2014 there were no reclassifications of financial assets or liabilities

Valuations of the investment properties were made at the end of each period/year by independent property consultants. The valuations are based on both the duration of the leases and the future cash flows and after due consideration of transaction activity in the market.

3.4 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.

FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement and Cash Flow Statement	
			YTD average	YTD average
	30 June 2014	30 June 2013	2014	2013
	£	£	£	£
CHF 1.00	1.51830	1.43840	1.48710	1.44654
USD 1.00	1.70480	1.52160	1.66919	1.54489
EUR 1.00	1.24920	1.16980	1.21757	1.17650

4. REVENUE

	30 June 2014	30 June 2013	31 December 2013
	£	£	£
Rental income	3,433,955	3,429,571	6,874,478

Rental income is stated after reallocation of £110,332 (30 June 2013 - £102,295 and 31 December 2013 – £205,491) to interest income.

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

	As at 30 June 2014	As at 30 June 2013	As at 31 December 2013
	£	£	£
Less than 1 year	7,040,423	6,699,888	7,047,672
More than 1 year and less than 5 years	21,121,268	19,825,618	21,143,017
More than 5 years	120,677,376	115,214,593	121,766,374
	148,839,067	141,740,099	149,957,063

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.

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.

5. ADMINISTRATIVE EXPENSES

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Third party company administration	(29,693)	71,237	173,962
Management fees	333,904	422,796	858,540
Professional fees	628,149	577,024	1,009,580
Waived receivables	-	-	192,086
Insurance and general expenses	24,820	61,584	82,455
	957,180	1,132,641	2,316,623

6. a) FINANCE INCOME

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Interest income – finance lease	469,836	458,988	1,100,462
Interest income – other third party	110,953	104,026	208,660
Interest rates swaps: ineffective element of cash flow hedges	-	-	-
Net exchange gains	-	907,588	328,422
	580,789	1,470,602	1,637,544

b) FINANCE COSTS

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Interest on mortgages	983,972	1,073,171	2,237,691
Other interest and borrowing expenses	2,564	4,886	9,001
Repayment Penalties	-	315,898	315,898
Net exchange losses	736,601	12,647	-
	1,723,137	1,406,602	2,562,590

7. EARNINGS PER SHARE

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

	As of 30 June 2014 £	As of 30 June 2013 £	As of 31 Dec 2013 £
Profit/(loss) from continuing operations attributable to shareholders	551,504	1,568,310	(8,585,833)
Profit from discontinued operations attributable to shareholders	-	1,441,274	2,235,364
Total	**551,504**	**3,009,584**	**(6,350,469)**
Weighted average number of ordinary shares outstanding	105,365,717	105,365,717	105,365,717
Basic and diluted earnings/(loss) per share (pence per share) –continued operations	0.52	1.49	(8.15)
Basic and diluted earnings per share (pence per share) – discontinued operations	-	1.37	2.12
Total	**0.52**	**2.86**	**(6.03)**

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 the items as detailed below:

	Note	As of 30 June 2014 £	As of 30 June 2013 £	As of 31 Dec 2013 £
Net profit/(loss) attributable to shareholders		551,504	3,009,584	(6,350,469)
Fair value loss on investment properties	9	459,610	673,780	12,773,056
Deferred income tax liability movement	14	212,352	(11,682)	(2,193,940)
Amortisation of debt issue costs		200,436	268,862	572,547
Impairment of loan	11	-	-	1,749,000
Non-recurring transaction fees	14	-	237,981	207,487
Repayment penalty on borrowings		-	315,898	315,898
Waived receivables	5	-	-	192,086
Current income tax expense		110,961	130,522	28,116
Gain on disposal of properties	13	-	(1,572,124)	(2,372,954)
Foreign exchange (gains)/losses	6b	736,601	(894,941)	(328,422)
Total adjusted earnings		2,271,464	2,157,880	4,592,405
Weighted average number of ordinary shares outstanding		105,365,717	105,365,717	105,365,717
Basic adjusted and diluted earnings per share (pence per share)		**2.16**	**2.05**	**4.36**

8. DIVIDENDS

No Dividends have been paid during the period ended 30 June 2014, or in the year ended 31 December 2013.

9. INVESTMENT PROPERTY

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Beginning of the period/year	72,092,779	84,017,922	84,017,922
Additions resulting from subsequent expenditure		-	-
Net (loss)/gain on fair value adjustment	(459,610)	(673,780)	(12,773,056)
Disposals	-	-	-
Net changes in fair value adjustments due to exchange differences	(1,330,002)	1,695,841	847,913
End of the period/year	70,303,167	85,039,983	72,092,779

Valuations of the investment properties were made at the end of each period/year by independent property consultants. The valuations are stated gross of certain costs of up to 7% that a purchaser may incur if the assets were sold.

The valuation of the investment properties in the UK was conducted by Colliers CRE, UK. Based on the detailed review of relevant information, Colliers CRE concluded that capitalisation rates of between 6.0% and 30.0% were appropriate under market conditions prevailing at 30 June 2014 (30 June 2013 – between 7.0% and 20.0% and 31 December 2013 – between 7.0% and 22.5 %), resulting in an average of 10.18% (30 June 2013 – 8.55 % and 31 December – 10.63%). PSPI has applied individual capitalisation rates as advised by Colliers CRE to each investment property in preparation of the interim condensed consolidated financial statements.

The valuation of the investment properties in Germany was conducted by Colliers CRE, UK. Based on both the duration of the leases and the future cash flows and after due consideration of transaction activity in the market, Colliers CRE concluded that capitalisation rates of 7.00% to 14.45% were appropriate under the market conditions prevailing at 30 June 2014 (30 June 2013 – 7.25% to 9.40% and 31 December 2013 – 7.25% to 12.19%), resulting in an average capitalisation rate of 9.38% (30 June 2013 – 7.83% and 31 December 2013 – 8.47%). PSPI has applied individual capitalisation rates as advised by Colliers CRE to each investment property in preparation of the interim condensed consolidated financial statements.

10. INVESTMENTS

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Beginning of period/year	1,000	1,000	1,000
Derecognition upon loss of significant influence	-	-	(1,000)
Recognition of investment at fair value	-	-	1,000
End of period/year	1,000	1,000	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 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 2012 the shareholders of PSPI approved this transaction with an effective completion date of the 25th July 2012.

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.

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

Due to the events at Esquire since the last quarter of 2013 and the resignation of Patrick Hall and Richard Barnes from the board from companies in the Esquire Group, the influence of both the Group and the Group's appointed board members of Esquire has ceased. Based on the former, the Group determined it no longer had significant influence over Esquire. In accordance with IAS 28, the Group derecognised the associate and recognised the investment at fair value in accordance with IAS 39. The initial fair value of the investment was the value of the equity investment at the date of derecognition. There was no income statement impact upon this change and given the insignificant value attributed to the investment upon initial recognition, there was no impact related to the Group's proportional share of other comprehensive income items of the associate. However there was an impairment of loan provision.

11. LOANS

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Beginning of the period/year	2,000	1,751,000	1,751,000
Additions	-	-	-
Disposals	-	-	-
Impairments	-	-	(1,749,000)
End of the period /year	2,000	1,751,000	2,000

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. 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.

Loans also consist of issued redeemable preference shares in lessee companies. These companies lease the investment properties and business licence as referred to in Notes 9 and 10. These preference shares are redeemable at any time. The Company has determined that, due to the significant deterioration of the tenant’s operating performance in respect of the UK portfolio in 2013, the preference shares may not be recoverable and have been impaired to a nominal value of £1,000.

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 4, on the same basis as specified in the lease agreements. During the period ended 30 June 2014, £110,332 (2013 – £102,295) was deducted from rental income and included in interest income. The various rental contracts are referred to in Note 4.

12. SHARE CAPITAL

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Authorised:			
Equity interests:			
500,000,000 Ordinary shares of $0.01 each	2,569,974	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	605,722

	Number of shares	Ordinary shares £	Share premium £	Total £
At 30 June 2013, 31 December 2013 and 30 June 2014.	105,365,717	605,722	89,736,103	90,341,825

13. DISCONTINUED OPERATIONS AND OTHER TRANSACTIONS

Discontinued operations

The results of HCP Etzelgut and the United Holdings Incorporation Group ("UPH") were treated as discontinued operations as at 31 December 2012 as they represent significant segments of the business. The completion date of the disposal of UPH was February 2013. An analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group is as follows:

	30 June 2014 £	30 June 2013 £	31 December 2013 £
Operating cash flows	-	-	101,185
Investing cash flows	-	-	1,190,805
Financing cash flows	-	-	(22,040)
	-	-	1,269,950

	30 June 2014 £	30 June 2013 £	31 December 2013 £
Revenue	-	244,749	244,749
Gain/(loss) on disposal of subsidiaries	-	1,572,124	2,332,443
Administrative expenses	-	(263,891)	(232,487)
Finance costs - net	-	(111,708)	(111,649)
Income tax expense	-	-	2,308
Gain/(loss) for the year from discontinued operations	-	1,441,274	2,235,364

14. DEFERRED INCOME TAX

Deferred tax liabilities:	**Fair value gains from business combinations**	**Fair value gains**	**Total**
At 30 June 2013	1,398,369	2,917,153	4,315,522
Charged to the income statement	(759,984)	(1,422,273)	(2,182,257)
Disposals			
Effect of exchange rate movements	-	(5,978)	(5,978)
At 31 December 2013	638,385	1,488,902	2,127,287
Charged to the income statement	-	212,352	212,352
Effect of exchange rate movements	-	(4,512)	(4,512)
At 30 June 2014	638,385	1,696,742	2,335,127

15. SEGMENT INFORMATION

Income Statement disclosures		**Continuing Operations**				**Discontinued Operations**	
	UK	**Germany**	**Total**	**US**	**Switzerland**	**Germany**	**Total**
Period ended 30 June 2014	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Revenue (Note 4)	1,935,444	1,498,511	3,433,955	-	-	-	-
Profit/(loss) for the period	2,978,444	(2,426,940)	551,504	-	-	-	-
Net gain or (loss) from fair value adjustments on investment property (Note 9)	2,836,244	(3,295,854)	(459,610)	-	-	-	-
Adjusted profit after tax (Note 7)	1,418,571	852,893	2,271,464	-	-	-	-
Period ended 30 June 2013							
Revenue	1,885,176	1,544,395	3,429,571	244,749	-	-	244,749
Profit/(loss) for the period	980,834	587,476	1,568,310	89,894	(104,920)	1,426,248	1,441,274
Net gain or (loss) from fair value adjustments on investment property (Note 9)	(388,273)	(285,507)	(673,780)	-	-	-	-
Adjusted profit after tax (Note 7)	1,526,107	804,518	2,330,625	(67,825)	(104,920)	-	(172,745)
Year ended 31 December 2013	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Revenue (Note 4)	3,786,986	3,087,492	6,874,478	244,749	-	-	244,749
(Loss) / profit for the year	(7,297,728)	(1,228,105)	(8,585,833)	387,729	1,847,635	-	2,235,364
Net gain or (loss) from fair value adjustments on investment property (Note 9)	(9,602,009)	(3,171,047)	(12,773,056)	-	-	-	-
Adjusted profit after tax (Note 7)	2,369,693	2,034,943	4,404,636	172,465	15,304	-	187,769

15. SEGMENT INFORMATION

	Continuing Operations					Disposal group classified as held for sale		
	UK	**Germany**	**Switzerland**	**US**	**Total**	**US**	**Germany**	**Total**
Period ended 30 June 2014	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Assets								
Investment properties (Note 9) (including capital expenditure)	40,510,150	29,793,017	-	-	70,303,167	-	-	-
Goodwill	-	-	-	-	-	-	-	-
Cash	2,702,892	1,009,114	56,589	-	3,768,595	-	-	-
Segment assets for reportable segments	**43,213,042**	**30,802,131**	**56,589**	**-**	**74,071,762**	**-**	**-**	**-**
Liabilities								
Total borrowings	16,207,202	13,490,640	-	-	29,697,842	-	-	-
Segment liabilities for reportable segments	**16,207,202**	**13,490,640**	**-**	**-**	**29,697,842**	**-**	**-**	**-**
Year ended 31 December 2013								
Assets								
Investment properties (Note 9) (including capital expenditure)	37,673,906	34,418,873	-	-	72,092,779	-	-	-
Goodwill	-	-	-	-	-	-	-	-
Cash	2,355,457	1,645,565	-	-	4,001,022	-	-	-
Segment assets for reportable segments	**40,029,363**	**36,064,438**	**-**	**-**	**76,093,801**	**-**	**-**	**-**
Liabilities								
Total borrowings	16,683,475	15,058,729	-	-	31,742,204	-	-	-
Segment liabilities for reportable segments	**16,683,475**	**15,058,729**	**-**	**-**	**31,742,204**	**-**	**-**	**-**

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.

15. SEGMENT INFORMATION (Continued)

A reconciliation of total adjusted profit after tax to profit after tax as per the interim condensed consolidated income statement is provided as follows:

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Adjusted profit for reportable segments	2,271,464	2,157,880	4,592,405
Fair value movement on investment properties	(459,610)	(673,780)	(12,773,056)
Deferred taxation on fair value gains	(212,352)	11,682	2,193,940
Amortisation of debt issue costs	(200,436)	(268,862)	(572,547)
Impairment of loan	-	-	(1,749,000)
Movement of deferred tax asset	-	-	-
Waived receivables	-	-	(192,086)
Impairment of goodwill	-	-	-
Repayment penalty on borrowings	-	(315,898)	(315,898)
Transaction fees	-	(237,981)	(207,487)
Recycling of translation reserve	-	-	-
Profit/(loss) disposal of properties	-	1,572,124	-
Current taxation	(110,961)	(130,522)	(28,116)
Foreign exchange movement	(736,601)	894,941	328,422
Profit/(loss) for the period per income statement	551,504	3,009,584	(6,350,469)

Reportable segments' assets are reconciled to total assets as follows:

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Total segment assets	74,071,762	89,488,103	76,093,801
Receivable from finance lease	9,497,923	9,306,885	9,492,854
Restricted cash	1,514,536	-	-
Investments	1,000	-	1,000
Loans and receivables	2,000	1,751,000	2,000
Receivables and prepayments	502,949	1,899,705	1,688,755
Total assets per balance sheet	85,590,170	102,445,693	87,278,430

Reportable segments' liabilities are reconciled to total assets as follows:

	30 June 2014 £	30 June 2013 £	31 Dec 2013 £
Total segment liabilities	29,697,842	34,401,855	31,742,204
Deferred taxation	2,335,127	4,315,522	2,127,287
Current taxation	377,778	628,529	448,565
Derivatives	627,448	85,518	137,944
Trade payables and accruals	764,085	1,763,476	1,012,706
Total liabilities per balance sheet	33,802,280	41,194,900	35,468,706

16. SUBSEQUENT EVENTS

There have been no significant subsequent events.

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