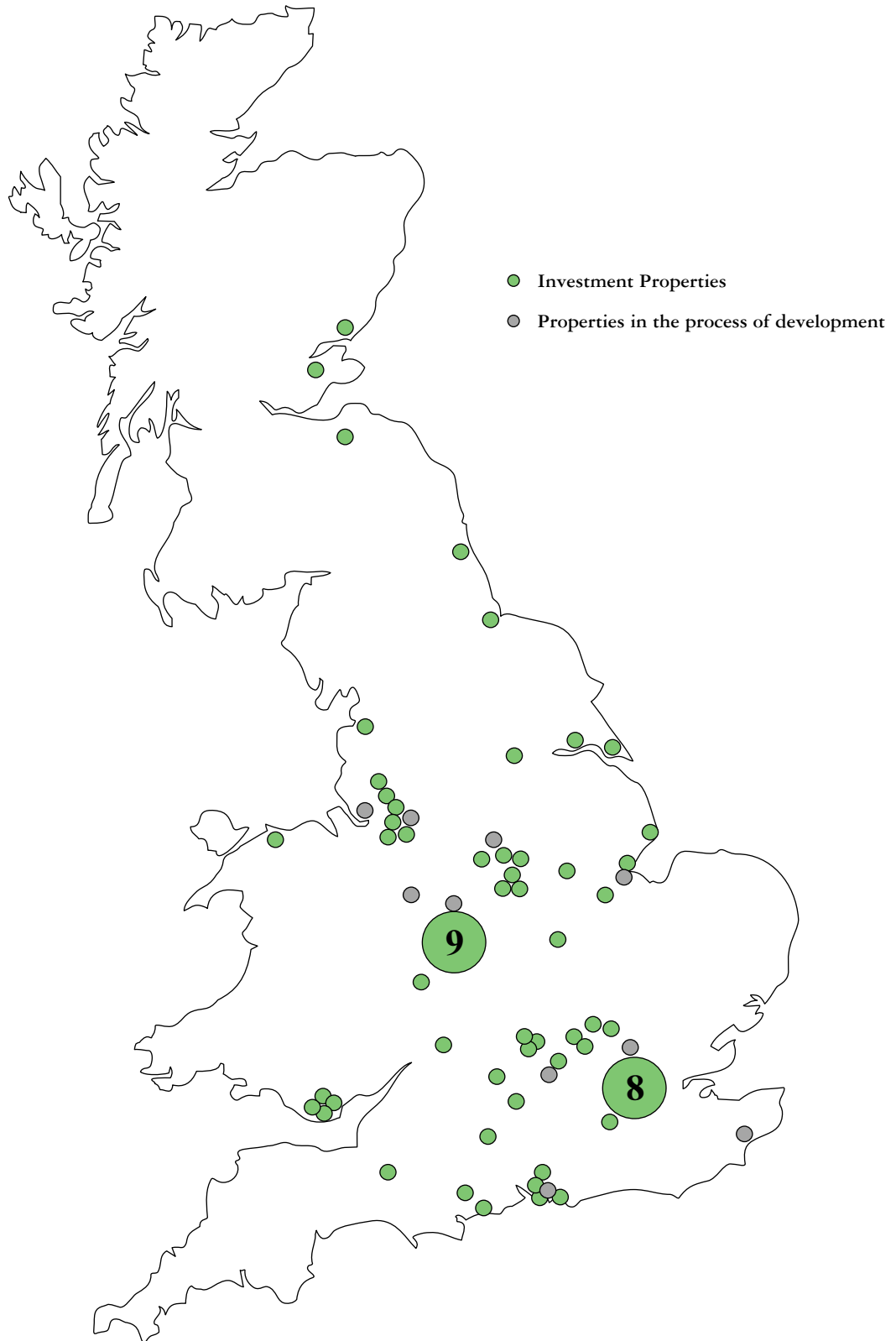


Primary Health Properties PLC

Annual Report for the year ended 30 June 2005

Map showing location of Properties

www.phpgroup.co.uk



Visit the Group's website www.phpgroup.co.uk for more information on properties contained within the portfolio.

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Objective of the Group

The objective of the Group is to generate rental income and capital growth through investment in primary health care property in the United Kingdom leased principally to GPs, NHS Trusts, Health Authorities and other associated health care users.

Group Financial Highlights

	As at 30 June 2005	As at 30 June 2004
Net assets (£m)	73.6	49.9
Net asset value per share (p) – basic	324.8	274.7
– diluted	314.6	243.7
Increase in net asset value per share (p) – basic	50.1	47.9
– diluted	70.9	43.1
Closing portfolio including development loans and finance leases (£m)	166.9	131.1
Commitments (including deposits paid) (£m)	20.1	18.2
Portfolio purchased and committed (£m)	187.0	149.3
Annualised delivered rent roll (£m)	10.0	8.4
Profit before and after taxation (£m)	3.0	2.5
Earnings per share (p) – basic	14.1	13.9
– diluted	13.4	12.8
Proposed final dividend per share (p)	6.0	5.5
Total dividend per share (p)	12.0	11.0
Total return per share (p) – basic	62.1	59.0
– diluted	82.9	54.0

Nine Year Summary of Key Performance Indicators

Accounts for the period to 30 June	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net assets (£m)	16.3	17.1	18.4	20.4	23.9	29.9	37.9	49.9	73.6
Net asset value per share (p)									
– basic	102.0	107.0	117.4	129.7	152.5	181.3	226.8	274.7	324.8
– diluted	102.0	107.0	115.8	125.0	142.2	164.6	200.6	243.7	314.6
Increase in net asset value per share (p)									
– basic	3.9	5.0	10.4	12.3	22.8	28.8	45.5	47.9	50.1
– diluted	3.9	5.0	8.8	9.2	17.2	22.4	36.0	43.1	70.9
Closing portfolio including development loans and finance leases (£m)	12.2	23.3	39.0	51.8	63.5	80.1	96.3	131.1	166.9
Annualised rent roll (£m)	1.1	1.7	2.9	4.3	5.0	6.2	6.9	8.4	10.0
Profit before taxation (£m)	0.7	1.1	1.0	1.2	1.6	2.0	2.2	2.5	3.0
Earnings per share (p)									
– basic	3.3	5.3	6.6	7.1	9.1	11.3	11.8	13.9	14.1
– diluted	3.3	5.3	6.6	7.0	8.7	10.4	10.8	12.8	13.4
Total dividend per share (p)	3.2	5.6	6.0	7.0	8.0	9.0	10.0	11.0	12.0
Total return per share (p)									
– basic	7.1	10.6	16.4	19.3	30.8	37.8	55.5	59.0	62.1
– diluted	7.1	10.6	14.8	16.2	25.2	31.4	46.0	54.0	82.9
Market price per share at 30 June (p)	103.5	98.0	104.0	116.5	149.0	180.0	179.0	245.0	310.5
Movement in Investment Property Databank (“IPD”) Index*†	100	107.6	110.8	117.8	118.6	119.4	122.7	132.5	146.3
Movement in diluted net asset value*	100	104.9	113.5	122.5	139.4	161.4	196.7	238.9	308.1

* Rebased to 100 at 30 June 1997.

† Capital return

Chairman's Statement

This was another very good year for Primary Health Properties. The Group produced a further year of profit growth with Group profit before taxation for the year ended 30 June 2005 totalling £3,030,000 (2004: £2,472,000), an increase of 23%. Turnover grew from £7,661,000 to £9,613,000, an increase of some 25%

Diluted earnings per share increased by 5% to 13.4p (2004: 12.8p). The size of the increase was affected by the conversion of the £4.0m Unsecured Loan Stock in the first half of the year, which resulted in the issue of 3,478,260 Ordinary shares of 50p each, together with the Placing, in the second half of the year, of 1,000,000 Ordinary shares raising £3m (gross of expenses). The number of Ordinary shares in issue is now 22,652,776.

In addition the Group posted its highest ever fully diluted net asset value of 314.6p per share, a rise of 29%. The diluted total return for the year was 82.9p (2004: 54.0p).

The Board has recommended a final dividend of 6.0p per Ordinary share which, with the interim dividend, makes a total of 12.0p per share for the year, an increase of 9% over the total dividend of 11.0p per share paid in respect of the previous year.

The Board has the authority to offer Ordinary shares instead of cash in respect of dividends. A circular offering Shareholders on the register on 30 September 2005 the opportunity to receive new Ordinary shares instead of the cash dividend in respect of the final dividend together with a form of election and/or Notice of Entitlement will be posted to Shareholders with the Annual Report. The latest date for receipt of the Forms of Election is 31 October 2005.

The year end valuation carried out on behalf of the Board by Lambert Smith Hampton has resulted in a revaluation surplus of £16.6m for the year. Of this £4.7m was accounted for at the interim stage. The undiluted net asset value per share has risen from 274.7p to 324.8p, and the diluted net asset value from 243.7p to 314.6p, reflecting both rental increases and current yields in the market. In addition, the calculation of the net asset value was affected by the conversion of the £4m of loan stock and the Placing mentioned above, as well as the issue of 27,383 Ordinary shares pursuant to the scrip dividend scheme.

Purchase of investment properties amounted to £19.7m during the year (total value of completed properties acquired £21.0m) and our commitments at the year end totalled £20.1m. Our portfolio, including commitments, was £187.0m at 30 June 2005, an increase from £149.3m at the previous year end. Unlike some of our competitors we are not directly exposed to development risk and we are not an operating business, remaining at heart a pure property investment vehicle.

Rent reviews during the year have again performed well, which has helped in increasing our rent roll at the year end from £8.4m to £10.0m, an increase of 19%.

During the year we agreed a further increase of £40m in our banking facilities, which now total £135m. We also extended the maturity of our term loan to 2013 at negotiated lower rates. The Group's permitted gearing level is 75% of Gross Assets. This would enable the Group to expand its portfolio to £294m based on existing equity resources.

Chairman's Statement (continued)

Expansion during the year has in part been financed by both the share issues noted above and further drawings on our committed medium term finance facilities. We have continued to monitor our exposure to interest rates and have entered into several new swap arrangements. For the year to 30 June 2006 we have covered approximately 62% of our exposure to interest rates at an average rate before margin of 4.72%. We have also extended the maturity and average cover of our interest rate protection so that we have 68% of our current exposure covered for the next nine years.

The share save scheme has 36 members holding 60,605 shares.

I am pleased to welcome to the Board as a non executive director Dr Ian Rutter OBE, who is a practising GP and a former Chief Executive of Bradford PCT and a member of several Government task forces concerned with primary care. Professor Patrick Pietroni, who has been with us since the Company's flotation in 1996, is retiring at the forthcoming AGM. I would like to thank him for his valued contribution and wise counsel during the period.

The portfolio at the date of this report has 72 properties with a further 14 contracted for delivery during the next 12 months. The portfolio has performed well in both capital and income terms and we believe that, although there is increased competition in the market place, the prospects for investment in the sector with its long lease lengths and good quality covenants make the portfolio attractive.

G A Elliot, Chairman
22 September 2005

Managing Director's Report

The table below sets out the development of our portfolio during the year under review. We took delivery of eight new developments (2004: ten new developments) and entered into a further twelve development commitments (2004: nine development commitments). At the year end the portfolio, when commitments are included, reached £187.0 million (2004: £149.3 million) as set out below.

	30 June 2005	30 June 2004
	£m	£m
Investment properties	160.0	122.6
Properties in course of development	2.2	2.8
Development loans	2.2	3.2
Finance leases	<u>2.5</u>	<u>2.5</u>
Total owned and leased	166.9	131.1
Deposits paid	0.4	–
Committed	<u>19.7</u>	<u>18.2</u>
Total owned, leased and committed	<u>187.0</u>	<u>149.3</u>

Portfolio Purchases during the Year

The Group completed the purchases of a number of properties during the year, details of which are set out below:

Property	Acquisition Cost	Occupational Tenants
	£m	
Dalkeith, Edinburgh	6.8	Doctors Practice and Pharmacy
Burton Latimer, Northants	1.5	Doctors Practice
Bentley, West Midlands	3.7	Primary Care Trust and Pharmacy
Llandudno, North Wales	1.6	Doctors Practice and Pharmacy
Southwell, Nottinghamshire	2.6	Doctors Practice
Tidworth, Hampshire	1.9	Doctors Practice and Pharmacy
Luton, Bedfordshire	1.9	Doctors Practice
Bilsthorpe, Nottinghamshire	<u>1.0</u>	Doctors Practice
TOTAL	<u>21.0</u>	

Managing Director's Report (continued)

Revaluation

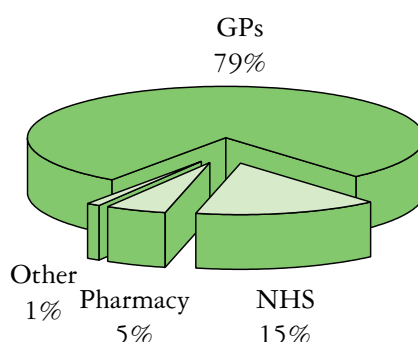
As reported in the Chairman's Statement, the portfolio valuations have resulted in an uplift of some £16.6 million which has been incorporated into the balance sheet, giving a closing property investment valuation (including finance leases) of £166.9 million. This increase amounted to 73.3p per share on an undiluted basis and 68.5p per share on a fully diluted basis. The valuation surplus reflects the impact, during the period, of our successful rent reviews. There has also been a further hardening of investment yields during the period. Notwithstanding this and an increased number of players in the market the Group has a good pipeline of investments.

Portfolio Rental Levels

The average rent for medical centres across the whole portfolio is approximately £158 per square metre ("psm") (2004: £155 psm). The average rent on accommodation let to the NHS (either directly or through the Doctors Rent and Rates Scheme) is approximately £154 psm (2004: £149 psm) and the average pharmacy rent is approximately £213 psm (2004: £190 psm). The weighted average length of time to the next review is 1.79 years across the portfolio.

Tenancy Split by Floor Area

The chart below indicates tenancy split by floor area (per square metre):



Rent Reviews

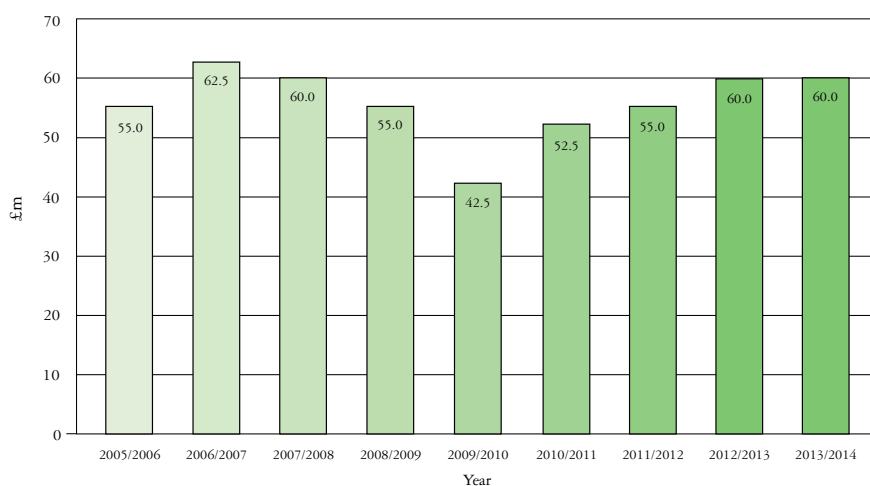
The Group completed a number of rent reviews during the year and there are a number of reviews outstanding that we expect to see resolved during the coming year. The results of the reviews completed during the year added some £303,000 to our rent roll. There are further reviews due from the past year which amount to some £1.55 million of rent passing. The chart on page 10 shows the timing of reviews across our portfolio. The pace of reviews is now picking up as more evidence is presented through the market and more premises go through the review process. The average increase in rent as a percentage of passing rent over the three year review process has been 12% equating to 3.85% per annum.

Managing Director's Report (continued)

Finance and Interest Rate Hedging

Bank borrowings increased from £72.2 million to £88.8 million during the year, of which the amounts shown in the table below have been hedged as swap contracts at an average weighted cost rate of 5.08% (2004: 5.50%) (excluding the lender's margin).

During the period a number of swaps have been entered into extending the maturity and quantum of the Group's cover under hedging arrangements as shown below.



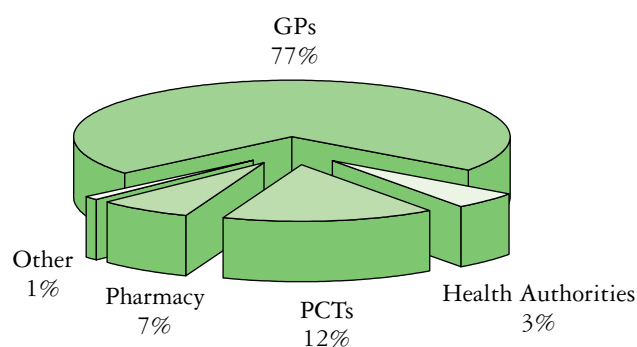
The bar chart above shows the level of fixed rate financing for each of the next nine financial years from hedging swaps.

Portfolio Characteristics

Users

The pie chart below shows the percentage of our portfolio by rent roll derived from each of our major tenant classes, GPs, PCTs, Health Authorities, pharmacy operators and others. Some 99% (2004: 99%) of rent roll comes directly or indirectly from the NHS and pharmacy operators.

Covenant Analysis by Annual Rent

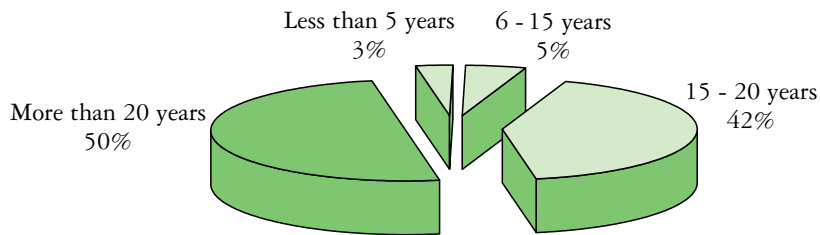


Managing Director's Report (continued)

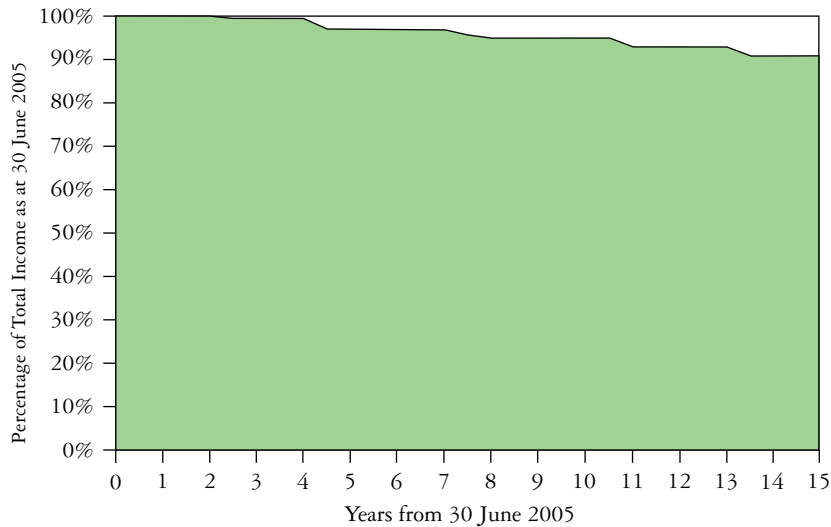
Length of Leases

Two diagrams below show the length of lease by lease expiry and percentage of today's passing rent. A third diagram reflects security of income by term certain. The pie chart indicates that some 92% (2004: 90%) of the lease income has more than 15 years unexpired, whilst the security of the income diagram shows the rental cash flow as a percentage of the year end rent roll, ignoring any increases and any lease renewals during the subsequent periods. This shows that by year 15 the Group would still be receiving 91% of its current income.

Analysis of Annual Rent by Term Unexpired

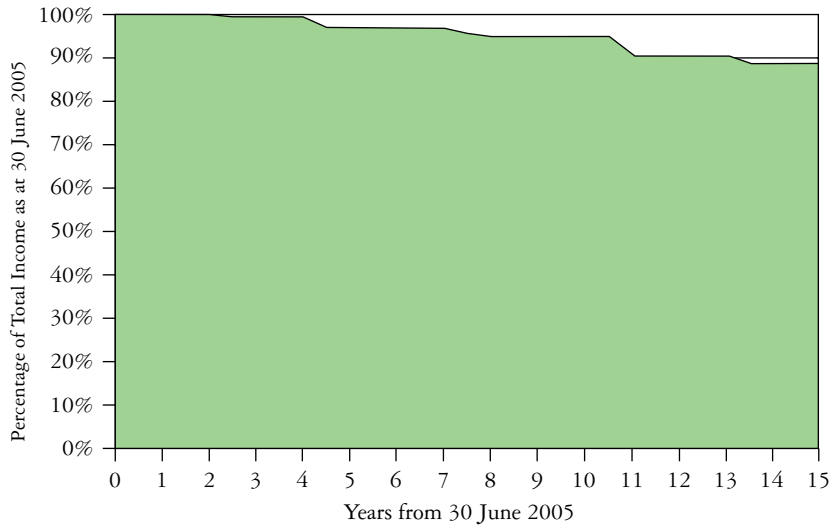


Security of Income by Lease Expiry



Managing Director's Report (continued)

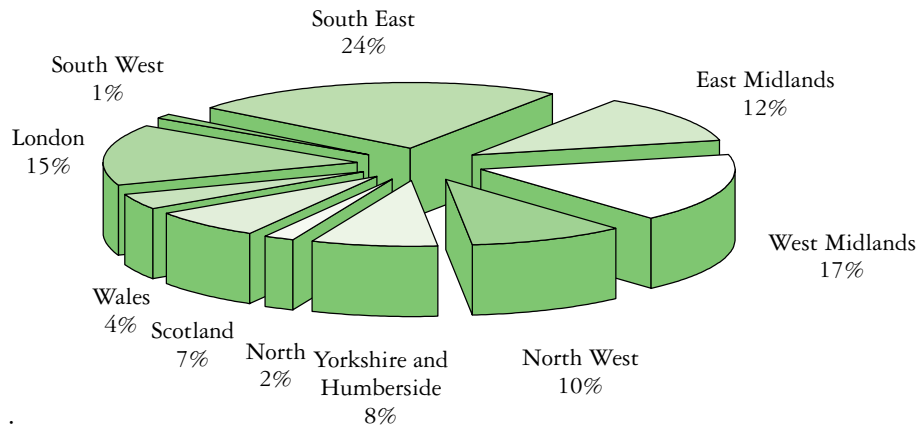
Security of Income by Term Certain



Geographical Spread

The pie chart below shows the percentage of the portfolio by rent roll derived from each of the NHS regions.

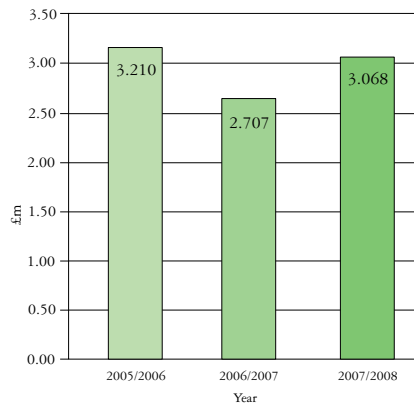
Annual Rent by Region



Forthcoming Rent Reviews

The graph below shows the annual amount of rent falling due for review in each of the next 3 years.

Rent Reviews by Annual Rent



Managing Director's Report (continued)

The Primary Care Market

The last year has seen continued development of the Government's NHS LIFT programme. So far, a handful of projects have been completed, and it is interesting to note that since the NHS LIFT programme started at the beginning of 2001, we have completed the purchase of over 30 schemes totalling around £67 million. Of these, 19 schemes (c. £42 million) were six months or more from going on site at the start of 2001. To the best of our knowledge there are 12 NHS LIFT buildings open to the public and whilst there are expected to be more opening over the next few months, it is our view that it has not been the most effective approach to solving the lack of investment in deprived areas.

Both within LIFT, and outside the LIFT remit, available premises funding for new primary care schemes is being carefully controlled. Government's perceived desire to see Primary Care as the cornerstone of a modern NHS is undermined by the lack of premises funding reaching the front line. However, the advent of Practice Based Commissioning and Alternative Providers of Medical Services ('APMS') will allow PCTs and GP Practices to be far more innovative in sourcing funding streams and we believe that this is an exciting time for Primary Care as a whole.

Throughout the country, demand for new medical centres continues. There is more cohesion within PCTs to see the primary care framework evolved and to take the lead in estates strategy to improve health service delivery in the local health economy.

Increased competition in the marketplace for new purpose built medical facilities has made these types of investment more attractive and has driven purchase yields down. This has a positive effect on the existing portfolio, but it means new acquisitions are more costly and we must continue to purchase properties where we believe there to be good long term growth prospects. During the year we bid for two portfolios of primary care centres, but due to the increased interest from other investors the price was pushed above what we considered to be their intrinsic worth, and therefore we withdrew our bid.

We have continued to add value to properties in the portfolio by negotiating new lease terms and refurbishing premises. For example, during the year we successfully negotiated a substantial extension in building area and a new lease term at our Droitwich property which was originally purchased in 1997.

Future Prospects

There are a great number of changes occurring within primary care and pharmacy relating to the structure and organisation of the sector – including the introduction of practice based commissioning and the opening up of the sector to private operators through APMS. In addition competition is increasing through the entry of new participants. Although in the short term this may lead to delays in approval of new projects we remain confident that the need to renew the primary care estate remains a top government priority and that the group has a good pipeline of deals to complete over the next 12 months.

In the mean time our existing portfolio continues to perform very well and we are working hard to add value from rent reviews and lease re-gearings.

International Financial Reporting Standards

The European Commission has directed that all listed companies in the European Union must present their consolidated group results in accordance with International Financial Reporting Standards ('IFRS') for accounting periods commencing on or after 1 January 2005. Primary Health Properties PLC will, therefore, apply IFRS for the first time to our financial year ending 30 June 2006. Our first report to Shareholders under IFRS will be the Interim Report for the six months ending 31 December 2005.

The application of IFRS will not affect the underlying performance of the Group, or its cashflows.

The new accounting standards will, however, represent a fundamental change in accounting and reporting. The Group has been considering the challenges of implementing IFRS for some time and is advanced in its planning and preparations to successfully make the transition from UK Generally Accepted Accounting Principles ('UK GAAP').

Managing Director's Report (continued)

The Group will present quantified details of the accounting impact of adopting IFRS following publication of the Group's 30 June 2005 final UK GAAP annual results. The principal areas where IFRS differs from UK GAAP that will affect the Group's results are considered below.

Accounting for Investment Property

Property revaluation movements are recorded in the profit and loss account (or income statement as it will become) under IFRS. Currently under UK GAAP they are treated as a movement in reserves. Reported profits will therefore be subject to greater volatility.

The Group expects that all of its leasehold properties will be classified as operating leases under IFRS. They will continue to be revalued every six months and to be shown as investment properties.

Deferred Tax Accounting

IFRS requires full deferred tax provision to be made for all taxable temporary differences between cost values for tax purposes and accounting values. UK GAAP on the other hand allows certain exemptions from this requirement. In particular UK GAAP does not require any provision to be made where there is no binding agreement to dispose of the related property. UK GAAP also allows calculating deferred tax on a discounted basis. There will also be an impact on the deferred tax position, due to the inability to discount under IFRS.

For our Group, the most significant difference between base cost values for tax purposes and accounting values comes from the revaluation of investment properties. As a result net assets are expected to be reduced under IFRS accounting. The Group will only potentially suffer a payment of tax if it sells these investments. The amount of tax then to be paid will reflect the sale price achieved, the structure of the sale transaction, and any other allowances for tax that may be available at that time. Therefore, the deferred tax provision that the Group will be required to provide within its opening balance sheet reserves under IFRS, and the subsequent provision movements arising on future valuation changes in its income statement, will not necessarily represent an amount of tax that the Group will suffer at a future date.

In addition, the use of discounting in the assessment of the deferred tax liability relating to accelerated capital allowances under UK GAAP results in a provision being required. Under IFRS discounting will not be allowed and a deferred tax liability will need to be recorded in respect of accelerated capital allowances.

Derivatives

Primary Health Properties has entered into a number of interest rate swap contracts to manage its risk exposure to changes in interest rates charged on its floating rate loan facilities. UK GAAP, as it applies to the Group's current financial year, does not require these derivatives, when used as a hedge, to be valued in the balance sheet. Under our present policy, gains and losses on these hedges are deferred until the underlying hedged item is recognised in the profit and loss account. IFRS requires all derivatives, whether cash flow hedges or fair value hedges, to be carried at their fair values in the balance sheet. The hedge accounting provisions of IFRS provide for changes in the value of these interest rate swap contracts to be recorded as a movement in reserves, thus reducing the sensitivity of the income statement to their fair value movements. IFRS requires the effectiveness of these hedges to be regularly tested, with ineffective portions of the hedges not treated as a reserve movement but as a charge to the income statement. The Group expects that all of its interest rate swap contracts to be fully effective and to account for them as cash flow hedges. The impact of IFRS will also mean that the valuation of derivatives may have deferred tax implications.

Managing Director's Report (continued)

Dividends

IFRS allows for a dividend declared for distribution to shareholders to be only recorded in a company's accounts when its declaration is within the accounting period it represents. Similarly, final dividends that must be approved by shareholders in general meeting cannot be recorded in the accounting period to which they relate. UK GAAP, prior to its convergence with IFRS, requires proposed final dividends to be accrued. A one-off increase in net asset value will result from this change equivalent to the net cost of the proposed dividend.

Share Based Payments

The Group has incentivised its Joint Managers with the granting of an option to subscribe for a fixed amount of shares at a fixed price, exercisable at any time between 31 March 2006 and 31 March 2013 subject to the achievement of performance criteria. Under UK GAAP as applied to the Group's current financial year, this share option is accounted for prospectively. The number of shares issued and the funds received from the exercise of options are included in the calculation of fully diluted net asset value. IFRS will require the option granted to be measured at its fair value with an equivalent amount charged over the vesting period to the income statement.

Harry Hyman
Managing Director

Adam Dalgliesh
Property Director

22 September 2005

Directors and Managers

Directors

Graeme Elliot*, aged 63, Non-Executive Chairman. Appointed February 1996. Mr Elliot was formerly executive vice chairman of Slough Estates PLC prior to which he held senior positions at Rio Tinto PLC. He is a director of a number of public companies.

Harry Hyman, aged 49, Managing Director. Appointed February 1996. Mr Hyman is the founder and Managing Director of Nexus Structured Finance Limited, the holding company for a group of companies engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors with particular emphasis on health and property, of which Nexus PHP Management Limited is a subsidiary. He is also a non-executive director of a number of other companies including General Medical Clinics PLC and Royal London UK Income & Equity Trust PLC. Mr Hyman is a Director of Primary Health Solutions Limited.

Adam Dalglish, aged 32, Property Director. Appointed October 1998. Mr Dalglish is a member of the Royal Institution of Chartered Surveyors. He qualified with Lambert Smith Hampton where he was previously employed. He has been responsible for the property management of PHP's portfolio since 1996. Mr Dalglish is a Director of Primary Health Solutions Limited.

Martin Gilbert*, aged 50, Non-Executive Director. Appointed May 1996. Mr Gilbert is chief executive of Aberdeen Asset Management PLC, whose wholly-owned subsidiary Aberdeen Asset Managers Limited holds 7.24% of the issued share capital of Primary Health Properties PLC, and chairman of the group's operating subsidiaries. He is chairman of FirstGroup PLC and a director of a number of investment trusts and of Lombard International Insurance SA.

William Hemmings, aged 40, alternate to Martin Gilbert. Appointed March 2000. Mr Hemmings is a fund manager with Aberdeen Asset Managers Limited.

James Hambro, aged 56, Non-Executive Director. Appointed February 1996. Mr Hambro is chairman of J O Hambro Capital Management Group Limited and its subsidiaries and corporate entities, including J O Hambro Capital Management Limited, Company Secretary. He is also a director of Singer and Friedlander AIM 2 VCT PLC.

Patrick Pietroni*, aged 62, Non-Executive Director. Appointed February 1996. Professor Pietroni was formerly Post Graduate Dean of General Practice at London University, and a former Director of the Centre for Community Care and Primary Health at the University of Westminster and has written widely on a number of medical topics. Professor Pietroni is a Director of the joint venture – Primary Health Solutions Limited.

Paul Sandford*, aged 38, Non-Executive Director. Appointed March 2001. Mr Sandford is Managing Director and Chairman of High Tor Limited, a privately-held investment company which is operated from Nassau in the Bahamas. High Tor Limited holds 7.84% of the issued share capital of Primary Health Properties PLC.

Dr Ian Rutter O.B.E.*, aged 52, Non Executive Director. Appointed to the Board and as a Member of the Audit Committee on 22 September 2005. He has been a General Practitioner for 24 years with the Westcliffe Practice in Shipley, Yorkshire previously First Wave and Total Purchasing Practice. In 2001 he was appointed to the newly created post of Chief Executive of North Bradford PCT. North Bradford PCT is a Three Star Trust having previously won the Prime Minister's Award for excellence and nominated for PCT of the Year this year. Since January 2005 he has been Joint Chief Executive Officer of Airedale PCT and North Bradford PCT. He has also worked as an associate of the Prime Minister's Delivery Unit and has worked at a senior level within the Department of Health and on committees such as Payment by Results. Dr Rutter retains an ongoing clinical commitment and was made O.B.E. for Services to Medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations.

* member of the Audit Committee and member of the Engagement Committee.

Directors and Managers

Managers

Nexus PHP Management Limited ('NPM') identifies suitable properties and negotiates the terms of purchase of those properties and provides property management services on behalf of the Company. It provides the services of the Managing Director and the Property Director of the Company. The Nexus group of companies offers financial and management consultancy advice to NHS Trusts and other organisations in all aspects of financial and healthcare matters.

J O Hambro Capital Management Limited ('JOHCML') (a wholly owned subsidiary of J O Hambro Capital Management Group Limited) provides administrative and accounting services to the Company and is Company Secretary. The JOHCML Group, through its four FSA authorised corporate entities, provides investment management services to investment trusts, venture capital trusts, open ended investment companies, hedge funds and other funds. JOHCML is regulated by the FSA.

Report of the Directors

Results and Dividends

The profit for the financial year ended 30 June 2005 after taxation amounted to £3,030,000 (2004: £2,472,000). The Directors recommend the declaration of a final dividend of 6.0p per share (2004: 5.5p) and accordingly a resolution will be put to the Annual General Meeting on 15 November 2005 to declare a final dividend in respect of the year ended 30 June 2005 payable on 21 November 2005 to Shareholders on the register at the close of business on 30 September 2005.

At the Extraordinary General Meeting held on 21 November 2002, the Directors were granted authority to offer Ordinary shares instead of cash in respect of dividends. A Circular, Form of Election and Notice of Entitlement will be posted to Shareholders on 7 October 2005 offering Shareholders on the Register of Members on 30 September 2005 the opportunity to elect to receive new Ordinary shares instead of cash in respect of the final dividend. The latest date for receipt of the Forms of Election is 31 October 2005.

On 19 August 2004, the holder of the Convertible Loan Stock converted its holding of £4.0m Convertible Loan Stock March 2016 into 3,478,260 Ordinary shares of 50p each. Interest on the Convertible Loan Stock ceased to accrue on 19 August 2004. The shares issued did not rank for the final dividend in respect of the year ended 30 June 2004. The new Ordinary Shares were issued on 19 August 2004 pursuant to the terms of the Loan Stock Instrument dated 14 March 1996. The current issued share capital is 22,652,776 Ordinary shares.

On 18 March 2005, £2.9m (net of expenses) was raised by way of a placing of 1,000,000 Ordinary Shares of 50p each of the Company at a price of 300p per share, comprising 5% of the then issued share capital.

Principal Activity

The principal activity of the Company and its subsidiaries is the generation of rental income and capital growth through investment in primary health care property in the United Kingdom.

Review of the Business and Future Activities

The Chairman's Statement on pages 4 and 5, and the Managing Director's Report on pages 6 to 13 contain a review of the business and an indication of future developments.

Company's Objectives, Policies and Strategies in Respect of Financial Instruments

Treasury Activities and Policies

The Group's treasury operations are co-ordinated and managed in accordance with policies and procedures approved by the Board. They are designed to mitigate the financial risks faced by the Group, which primarily relate to funding, liquidity and interest rate exposure.

The Group's financial instruments comprise convertible loan stock, bank borrowings, interest rate swaps, investments in finance leases, development loans and some cash and other items such as trade debtors and creditors that arise directly from its operations. The Group's policy is not to engage in trades of a speculative nature.

Further details of financial instruments are given in note 13 to the financial statements. The Board reviews and agrees policies for managing each of the above mentioned risks. These are summarised below:

(i) *Interest Rate Risk*

The Group finances its operations through called up share capital, convertible loan stock, retained profits and bank borrowings. The Group then uses interest rate swaps to manage its exposure to interest rate fluctuations. At the year end 56.3% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (see note 13 of the financial statements).

Report of the Directors (continued)

(ii) Liquidity Risk

The Group prepares an annual plan which is approved by the Board which sets out the Group's expected financing requirements for the next 12 months. At the year end the maturity analysis of the Group's facilities was as follows:

	<i>Amount</i>	<i>Maturity</i>
Bank borrowings	£125m	2013
Bank borrowings	£10m	364 days

At the year end there was £85.8m drawn under the new 2013 bank facility with the Royal Bank of Scotland, and £3.0m drawn under the new Allied Irish Banks Plc revolving facility.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to have a majority of borrowings maturing in more than twelve months. The Company has negotiated an option to extend its ability to convert all of its 2013 term facilities into longer term finance that would mature in 2022, under a new agreement signed with the lender on 9 March 2005.

(iii) Borrowings

The bank borrowings are secured by a fixed and floating debenture over the assets and income streams of the Company.

(iv) Property Risk

The leases entered into by the Group's tenants are on terms such that the tenant is responsible for fully repairing and insuring the buildings.

(v) Gearing

The maximum gearing currently available to the Group permitted under the Articles of Association is 75% of gross assets.

Notified Shareholdings

At the date of this report the following interests in the Ordinary shares of the Company which exceed 3% of the issued share capital had been notified to the Company pursuant to section 198 Companies Act 1985:

	No of Shares	% of Issued Share Capital
High Tor Limited	1,775,000	7.84
Aberdeen Asset Managers Limited	1,637,803	7.24
Nexus Structured Finance Limited*	990,700	4.37

* Connected person of Mr H A Hyman.

Mr Sandford is a Director of High Tor Limited and Mr Gilbert is a Chief Executive of Aberdeen Asset Managers Limited.

Directors

Dr Rutter was appointed by the Board on 22 September 2005. In accordance with the Company's Articles of Association, any Director appointed during the year by the Directors holds office until the next Annual General Meeting at which he is required to stand for re-election. Biographical details for all Directors in office at the date of this report are included on page 14.

Professor Pietroni retires by rotation at the forthcoming Annual General Meeting and is not standing for re-election.

In accordance with provision A.7.2 of the Combined Code Messrs. Elliot, Gilbert and Hambro are subject to annual election and accordingly a resolution to reappoint them will be put to the Annual General Meeting and is included in the Notice of Annual General Meeting on page 51.

Report of the Directors (continued)

The Chairman and other members of the Board recommend that the Directors retiring be re-elected. The Chairman has confirmed that all Directors retiring and seeking re-election have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his review continue to fulfil their functions responsibly. The other members of the Board have evaluated the performance of the Chairman and recommend his re-appointment.

Directors' Interests

The interests of the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated) as at 30 June 2005 and 1 July 2004 are set out below:

	2005	2004
	Ordinary Shares of 50p	Ordinary Shares of 50p
G A Elliot	5,000	5,000
M J Gilbert	–	–
W J C Hemmings: (alternate to M J Gilbert)	1,069	607
J D Hambro	10,000	10,000
J D Hambro (non-beneficial)	–	476,667
H A Hyman	36,342	33,667
H A Hyman (non-beneficial)	990,700	1,021,360
P C Pietroni	–	–
P Sandford (non-beneficial)	1,775,000	1,775,000
A D S Dalglish	5,000	5,000

Mr Hyman's non-beneficial interest at the date of this report was 990,700 Ordinary shares and his beneficial interest was 36,702 Ordinary shares. At the date of this report Mr Hemmings' interest was 1,160 Ordinary shares.

Mr P Sandford is executive chairman of, and a shareholder in, High Tor Limited, which holds 7.84% of the issued share capital of the Company.

Mr M J Gilbert is the Chief Executive of Aberdeen Asset Management PLC and a Director of Aberdeen Asset Managers Limited, its wholly owned subsidiary, which holds 7.24% of the issued share capital of the Company.

There were no changes in the above interests between 30 June and the date of this report save as disclosed above.

Details of Directors' remuneration are included in the Directors' Remuneration Report on pages 25 and 26.

The Company has a joint Management Agreement with NPM for the provision of certain services in relation primarily to the purchase and monitoring of the Group's properties and with JOHCML for the provision of certain administrative, accounting and company secretarial services terminable on two years' written notice, further details of which are set out in note 5 to the financial statements. This Management Agreement was updated and renewed by the Board and a revised Management Agreement was signed on 17 July 2000. The Management Agreement dated 17 July 2000 was novated to NPM on 14 February 2005. Mr Hyman is a director of NPM and a director and shareholder of Nexus Structured Finance Limited, of which NPM is a wholly owned subsidiary. Mr Hambro is Chairman of and an indirect shareholder of JOHCML. Messrs. Hyman and Hambro are therefore deemed to have an interest in the above contract.

Management Options

Pursuant to an Option Agreement between the Company, JOHCML and NPMS, dated 17 September 2003, NPM and JOHCML were granted options to subscribe for 1,120,000 and 480,000 Ordinary Shares respectively, at a price of 171 pence per Ordinary Share. On 14 February 2005, the Management options granted to NPMS were transferred to Nexus PHP Management Limited ('NPM').

Report of the Directors (continued)

These management options are exercisable at any time between 31 March 2006 and 31 March 2013 other than during a Prohibited Period and only if:

- (a) the relevant joint manager has remained as an adviser to the Company from the date of the New Management Options until the relevant exercise date; and
- (b) the latest published audited financial statements of the Company show the basic net asset value per share (adding back all gross dividends paid on each share) has increased since the date that the New Management Options were granted at a rate in excess of the equivalent of a compound annual rate of seven per cent.

Save as disclosed above, no Director was party to or had an interest in any contract or arrangement with the Company at any time during the year.

Creditor Payment Policy

It is the Group policy to settle suppliers' accounts in accordance with their individual terms of business. As at 30 June 2005 the Company had £3,227,000 of trade creditors representing 46 creditor days (2004: £3,363,000 and 75 days).

Share Save Plan

As referred to in the Chairman's Statement on pages 4 and 5, the Company has a Share Save Plan (the "Plan") allowing investors to purchase the Company's shares. For further details, please see Shareholder Information on page 53. The total number of Ordinary shares held within the Plan is currently 60,605.

Annual General Meeting

The Annual General Meeting of the Company will be held on 15 November 2005 at 10.30am in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. The Notice of Annual General Meeting is set out on pages 51 and 52. Resolutions 1 to 8 set out in the Notice are concerned with the ordinary business customarily transacted at annual general meetings.

Explanatory Notes for the Special Business at the Annual General Meeting

Resolution 9 – Renewal of Directors' Authority to Allot Shares

The authority given to the Directors at the last Annual General Meeting to allot shares expires at the conclusion of this year's meeting. Resolution 9 will renew the authority to allot shares of the Company on similar terms as in previous years. If Resolution 9 is passed, the Directors will have the authority to allot shares up to the aggregate nominal amount of £3,775,462 representing one third of the current issued share capital. This authority will expire at the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution.

The Directors have no present intention of exercising the authority (if renewed) to allot the shares but reserve the right to allot the shares at any time.

Resolution 10 – Renewal of Directors' Authority for the Disapplication of Pre-emption Rights

The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting. Resolution 10 will renew the disapplication of pre-emption rights thereby authorising the Directors to allot equity securities up to a maximum aggregate renewal amount of £566,319 representing 1,132,638 Ordinary shares of 50p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders.

Report of the Directors (continued)

Resolution 11 – Renewal of Authority to Purchase Company’s Own Shares

The authority for the Company to purchase a maximum of 2,652,776 Ordinary Shares in the market, representing 10% of the issued share capital expires at the forthcoming Annual General Meeting. It was not used during the current year and Resolution 11 on page 52 renews this authority for a further year. The Directors intend to exercise this authority only when, in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the best interests of Shareholders generally. Shares will not be bought at a price of less than 50 pence each being the nominal value of each share nor more than 5% above the average middle market price of the shares over the preceding five business days nor will they be purchased during periods when the Company would be prohibited from making such purchases. Purchases will be made within guidelines set by the Board and using available reserves. Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly.

Auditors

A Resolution to re-appoint Ernst & Young LLP as the Company’s Auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

J O Hambro Capital Management Limited
Company Secretary

22 September 2005

Registered Office:
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

Registered in England No. 3033634

Corporate Governance

The Combined Code Principles of Good Governance and Code of Best Practice (the “Code”).

The UK Listing Authority Listing Rules require all listed companies to disclose how they have applied the principles and complied with the provisions of the Code. The Company is committed to high standards of corporate governance and is accountable to its shareholders for the governance of its affairs. This statement describes how the Company has applied the principles throughout the year under review. In accordance with the concept of “comply or explain”, any areas of non-compliance are explained below.

The Board

Graeme Elliot chairs the Company’s Board. He met the independence criteria set out in the Code at the time of his appointment. His current significant other appointments are as a Director of Ferbico, AMH Investments and Volta Investments. Although the Code does not regard the Chairman as independent, the Board does not consider that his outside appointments detract from his commitment as Chairman of the Company. Pursuant to the Management Agreement dated 14 March 1996 Harry Hyman is designated as the Company’s Managing Director. He is also Managing Director of one of the Joint Managers – Nexus PHP Management Limited. The Chairman and Managing Director roles are separate. The Chairman chairs the Board, leads the non-executive Directors and ensures their engagement and contribution. The Chairman also reviews the individual performance of each of the non-executive Directors. The Managing Director and the Joint Managers carry on the day to day business in line with the Board’s delegated authority and the Management Agreement. With the Company Secretary, the Chairman ensures that the Board is kept properly informed, is consulted on all matters reserved to it and that any decisions are made in a timely manner. The Board consists of seven Directors, four of whom are considered by the Board to be independent in character and judgement. The Board works well as a whole and comprises a wide range of qualities and expertise to bring to any debate. The Directors’ biographies demonstrate a breadth of investment, commercial and professional experience. Paul Sandford and Martin Gilbert each represent shareholders holding less than ten per cent of the issued share capital and are not deemed by the Board to be significant shareholders. The Board does not consider that this impairs their independence, rather it aids continuity, as both shareholders have been shareholders since 1998 and 1996 respectively demonstrating loyalty and commitment. The Board has reviewed its composition as a whole and considers that, due to the named Directors personal experience and skills, they make a useful contribution to the Board. The Board has a rigorous and transparent procedure for Board appointments. New Directors are given an Induction Pack containing detailed information regarding the Company. The Board has considered the need to appoint a senior independent Director as required by the Code provision A.1.2 but believes that this is not necessary given the size of the Board and as the majority of the directors, including the Chairman, are deemed independent by the Board.

All members of the Board participate in discussing strategy, performance, financial and risk management and board meetings are structured to facilitate open debate. All Directors have access to the advice and services of the Company Secretary, J O Hambro Capital Management Limited, which is responsible for ensuring that the Board procedures are complied with and advising the Board on governance matters. The Board has resolved that directors may seek independent professional advice at the Company’s expense in the furtherance of their duties as Directors. No Director made use of this facility during the year. Although Directors have no service contracts, letters of appointment are in place for the non executive Directors and for Adam Dalglish, providing for termination on not less than three months’ written notice. The terms of the Management Agreement, described in the Directors’ Report on page 18 also provides for the appointment of the Managing Director and James Hambro. In accordance with the Articles of Association any Director who has been appointed by the Board, either to fill a casual vacancy or as an additional Director, holds office only until the next annual general meeting. Subsequently one third of the Directors retire and offer themselves for re election at the Annual General Meeting. Professor Pietroni was invited by the Company to serve on the Board of the Company’s joint venture Primary Health Solutions Limited, established in relation to the Government’s NHS LIFT Programme, due to his experience within the National Health Service. Although therefore not deemed by the Code to be independent, the Board considers that this does not impair his independence of character or judgement. Professor Pietroni retires by rotation at the forthcoming Annual General Meeting and is not standing for re-appointment. In accordance with provision

Corporate Governance (continued)

A.7.2 of the Combined Code Martin Gilbert, the Chairman and James Hambro who have all served for a period longer than 9 years are subject to annual election. Accordingly a resolution is included in the notice for the Annual General Meeting on page 51. All Directors including those standing for re-election have been appraised.

Role and Operation of the Board

The principal task of the Board is to formulate strategy and to monitor and control operating and financial performance in pursuit of the objectives of the Company. It has a schedule of matters reserved to it.

Five principal Board meetings were held during the year. The Directors attended all Board meetings during the year with the exception of Messrs Hambro and Hemmings who, by prior arrangement, were each absent from one meeting.

The Board is assisted by its committees. The Board has established a Standing Committee delegating authority and laying down procedures to deal with the implementation of Board decisions, routine business and to deal with any urgent items arising between scheduled Board meetings not requiring debate. The Chairman with the Joint Managers regularly discusses Company matters in between scheduled board meetings. J O Hambro Capital Management Limited is the Secretary to each of these Committees. The Audit Committee's role is to ensure the probity of the financial statements and robustness of the financial, operational, compliance controls and systems of risk management relied on by the Company. The Board's Remuneration Committee determines appropriate levels of remuneration for Directors. The Board acts as the Nominations Committee, meets as and when deemed necessary to consider any requirement for new Directors and to discharge its role in nominating any new Directors to the Board and to consider succession planning.

Each Committee has its own terms of reference and these are available on request from the Company Secretary.

Board Evaluation

A questionnaire on Board performance was circulated to all Directors. The Chairman discussed Board evaluation with each Director and with the Board as a whole. The results of these discussions were then reviewed by the Board. Continuing Board appointment is contingent on satisfactory performance and re-election by the shareholders at Annual General Meetings. The non-executive Directors evaluated the performance of the Chairman.

The Audit Committee

The Board is supported by an Audit Committee which comprises all of the independent non-executive Directors. The Audit Committee is responsible for the review of the annual report and interim report, the nature and scope of the external audit, their findings, the terms of appointment of the auditors and the provision of any non-audit services. It also meets with representatives of the Managers and receives reports on the quality and effectiveness of the accounting records and the management information maintained on behalf of the Company.

Report of the Audit Committee

The Audit Committee met representatives of the managers twice this year, who reported on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Managers operate. The Company's Auditors also attended the Committee at its request once in the year and commented on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include review of the effectiveness of the internal control environment, accounting policies, the Auditor's appointment and remuneration. The Audit Committee is authorised to take such independent professional advice (including legal advice – no use of this facility was made during the year) and to secure the attendance of any external advisers with relevant experience it considers necessary. All members of the Audit Committee attended the two meetings. The Audit Committee considers that the Committee as a whole has the relevant and recent financial experience required to carry out its duties and does not consider it appropriate to rely on any one member with financial expertise as stipulated by Code provision C.3.1. The Audit Committee is satisfied that the Auditors are independent notwithstanding the

Corporate Governance (continued)

proportion of fees paid for non audit services in the year to 30 June 2005. The Audit Committee consider that auditor objectivity and independence is not impaired by the performance by the auditors of non audit services. The Audit Committee does not consider that the appointment of a third party unfamiliar with the Company to carry out routine non audit services would benefit shareholders. During the year a separate firm was engaged by the Company to provide specific and separate non audit and non routine advice.

The Audit Committee met twice during the year to review the interim and annual financial statements and to review reports and hold discussions with the joint managers. In carrying out its duties during the year the Audit Committee has considered, inter alia, the budget for the year, the internal control reports, the risk management framework and the effectiveness of the external audit process, the independence and objectivity of the external auditors, the audit plan and audit reports, audit fees, and corporate governance report. As part of the Board evaluation process the work of each Committee has been evaluated.

The Audit Committee considers annually the need for an Internal Audit function and its recommendation to the Board. The Audit Committee continues to consider that it is not appropriate for the Company to have an internal audit function as it has no staff of its own and relies on the services of third party service providers.

Engagement Committee

The Engagement Committee comprising the non-executive Directors is responsible for the regular review of the terms of the management contract with the Managers. The Committee reviews the terms, including fees and other remuneration payable to Nexus Property Management Services Limited and J O Hambro Capital Management Limited set out in note 5 of the financial statements, on a regular basis. Details of the options granted to the Managers are set out in the Report of Directors on pages 18 and 19.

Directors' Remuneration

The Board as a whole agree Directors' remuneration and the current fees of £15,000 for Directors and £20,000 for the Chairman were set in April 2005. (Previous fees of £12,500 for Directors and £17,500 for the chairman were set in April 2002.) The remuneration of the Directors is disclosed in the Directors' Remuneration Report on pages 25 and 26.

The Directors' fees payable to Messrs Hambro, Hyman and Dalgliesh are paid to JOHCML and NPM respectively.

Shareholder Relations

The Company, through the Managers, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private Shareholders and encourages them to attend and participate. The Annual General Meeting is attended by the Chairman who is also Chairman of the Audit Committee. The Notice of General Meeting sets out the business of the meeting on pages 51 and 52. The special business is also explained fully in the Explanatory Notes on pages 19 and 20. Separate resolutions are proposed for each substantive issue.

Accountability and Audit

The Board's responsibilities with regard to the financial statements and a statement of Going Concern are set out below and also on page 24. The report of the Independent Auditors is on pages 27 and 28.

Internal Control

The Combined Code requires the Board to review the effectiveness of internal control. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has reviewed the effectiveness of the system of internal control which has been in operation throughout the year and up to the date of the Annual Report. The Board believes that although robust, the Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore any system can provide only reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance (continued)

The Board believes that the key risks identified and the implementation of an ongoing system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as a property holding company. The ongoing risk assessment process is regularly reviewed and is in accordance with Turnbull guidelines. It includes consideration of the scope and quality of the systems of internal control adopted by the service providers and ensures regular communication of the results of monitoring by third parties to the Board. Any incidence of significant control failings or weaknesses that have been identified and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or conditions are reported to the Board.

The Company does not have an internal audit function as it uses third party service providers and does not employ any staff nor does the Board consider it appropriate.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. They have therefore adopted the going concern basis in preparing these accounts.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements in respect of the Companies Act 1985 and the Listing Rules. An ordinary resolution for the approval of this report will be put to the Members at the forthcoming Annual General Meeting. This is an advisory vote only.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 27 and 28.

Role and Composition

The Board as a whole agrees Directors' remuneration and discharges the responsibilities of the Remuneration Committee. No director participates in discussions on his own remuneration. A Remuneration Committee has not been formed due to the size of the Board. The Board seeks to attract and retain the right calibre of people.

Directors' Remuneration

The fees payable to Directors are agreed by the Board following the recommendation of the Chairman of the Board and with the assistance of independent external advice on comparable organisations and appointments, as required. Directors' fees are determined by the Board subject to the limits set out in the Company's Articles of Association. Directors' fees are currently £15,000 for Directors and £20,000 for the Chairman. These fees were increased with effect from 1 April 2005 from the previous fees of £12,500 for Directors and £17,500 for the Chairman.

Remuneration of Directors (Audited)

	Year ended 30 June 2005	Year ended 30 June 2004
	£	£
G A Elliot (Chairman)	18,125	17,500
H A Hyman (Managing Director)	13,125	12,500
J D Hambro	13,125	12,500
M J Gilbert	13,125	12,500
P C Pietroni	13,125	12,500
P Sandford	13,125	12,500
A D S Dalgliesh	13,125	12,500

Remuneration of Directors can also be found in Note 5 of the Financial Statements on pages 37 and 38.

The fees in respect of Mr Hambro's services are paid to JOHCML. Mr Hambro is an indirect shareholder of JOHCML. The fees in respect of the services of Messrs Hyman and Dalgliesh are paid to NPM. The relationship of these directors to the joint managers is described on page 18. The fees in respect of Mr Gilbert are paid to Aberdeen Asset Managers Limited.

No Director receives any benefits in kind.

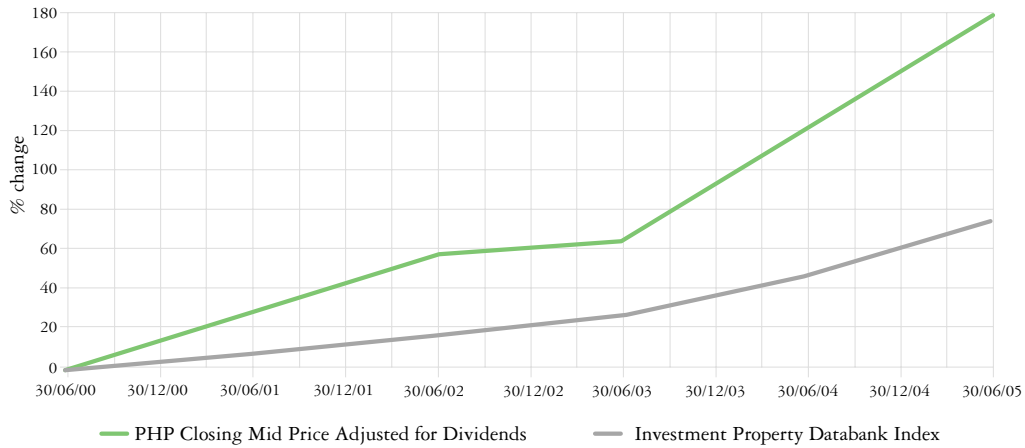
Service Contracts

No Director has a service contract with the Company nor are they appointed for a specific term of office. The contracts for the services of Messrs Hambro and Hyman are with JOHCML and NPM respectively. There are letters of appointment in place for all Directors except Messrs Hambro and Hyman which provide for three months' notice. No compensation is payable for loss of office.

Directors' Remuneration Report (continued)

Company's Performance

The following graph compares, over a five year period, the total shareholder return on the Company's shares with a property index used as a key performance indicator on page 3 of this Annual Report.



Source: *Investment Property Databank UK Annual Index.*

The Investment Property Databank UK Annual Index ('IPD') is an index established 20 years ago and is the IPD flagship index in terms of the number of properties and length of historic coverage. At the end of 2004, the 243 portfolios and 11,000 properties covered by the Annual Index were valued at £121 billion, equivalent to 45% of the UK investment market. The full index tracks the three market sectors since 1971.

For the year ended 30 June 2005, the highest and lowest mid-market price of the Company's Ordinary shares was 331.5p and 237.5p respectively.

This report was approved by the Board on 22 September 2005 and signed by G A Elliot, Chairman.

Independent Auditors' Report

to the members of Primary Health Properties PLC

We have audited the Group's financial statements for the year ended 30 June 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements. The Directors are also responsible for preparing the Directors Remuneration report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Objective of the Group, Group Financial Highlights, Nine Year Summary of Key Performance Indicators, Chairman's Statement, Managing Director's Report, Information on Directors and Managers, Report of the Directors, Corporate Governance Statement, unaudited part of the Directors Remuneration Report, Notice of Annual General Meeting, Shareholder Information and Corporate Profile. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report

to the members of Primary Health Properties PLC (continued)

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2005 and of the profit of the Group for the year then ended; and the financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor, London

22 September 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	<i>Notes</i>	30 June 2005 £'000	30 June 2004 £'000
Turnover	2	9,613	7,661
Administrative expenses	5	(1,962)	(1,738)
Operating profit		7,651	5,923
Share of operating profit in joint venture		–	4
		7,651	5,927
Interest receivable	4	278	183
Interest payable	3	(4,899)	(3,638)
Profit on ordinary activities before taxation		3,030	2,472
Taxation	6	–	–
Profit on ordinary activities after taxation		3,030	2,472
Interim dividend of 6.0p per share (2004: 5.5p)		(1,299)	(997)
Final dividend proposed of 6.0p (2004: 5.5p)		(1,359)	(998)
Additional final dividend 2003	19	–	(69)
		(2,658)	(2,064)
Profit retained for the year		372	408
Net profit after tax and dividends for the year retained by:			
The Company		361	398
Subsidiary undertakings (after declaring dividends of £9,440,000 (2004: £7,515,000))		11	6
Joint venture		–	4
		372	408
Earnings per share – basic	7	14.1p	13.9p
– diluted	7	13.4p	12.8p
Dividends per share (net)		12.0p	11.0p
Increase in net asset value per share – basic	20	50.1p	48.0p
– diluted	20	70.9p	43.0p
Total return per share – basic	21	62.1p	59.0p
– diluted	21	82.9p	54.0p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 June 2005

	30 June 2005 £'000	30 June 2004 £'000
Profit for the financial year excluding share of profit in joint venture	3,030	2,468
Share of joint venture's profit for the year	—	4
	<hr/>	<hr/>
Profit for the financial year attributable to members of the Parent Company	3,030	2,472
Unrealised surplus on revaluation of properties	16,602	10,050
	<hr/>	<hr/>
Total gains and losses relating to the year	<u>19,632</u>	<u>12,522</u>

All activities are continuing.

Company Balance Sheet

as at 30 June 2005

	<i>Notes</i>	2005 £'000	2004 £'000
Fixed assets			
Investment in subsidiaries	9	116,091	95,185
Investments:			
Development loans	8	2,310	3,346
		<u>118,401</u>	<u>98,531</u>
Current assets			
Debtors	10	559	375
Cash at bank		186	252
		<u>745</u>	<u>627</u>
Creditors: amounts falling due within one year	11	<u>(3,965)</u>	<u>(3,674)</u>
Net current liabilities		<u>(3,220)</u>	<u>(3,047)</u>
Total assets less current liabilities		115,181	95,484
Creditors: amounts falling due after more than one year			
Bank loans	12	(88,800)	(72,210)
Convertible loan stock 2016	12	–	(4,000)
		<u>(88,800)</u>	<u>(76,210)</u>
		<u>26,381</u>	<u>19,274</u>
Capital and reserves			
Called up share capital	14	11,326	9,074
Share premium account	15	11,952	7,459
Capital reserve	16	1,618	1,618
Profit and loss account	18	1,485	1,123
Equity Shareholders' funds	19	<u>26,381</u>	<u>19,274</u>

These financial statements were approved by the Board of Directors on 22 September 2005 and signed on its behalf by:

G A Elliot, Chairman

Consolidated Cash Flow Statement

for the year ended 30 June 2005

	<i>Notes</i>	30 June 2005 £'000	30 June 2004 £'000
Net cash inflow from operating activities	22	7,733	6,167
Returns on investments and servicing of finance			
Interest received		33	16
Interest paid		(4,275)	(3,157)
		(4,242)	(3,141)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(17,184)	(21,077)
Development loans advanced		(2,550)	(3,223)
Deposits paid		(393)	–
Loan to joint venture		–	(27)
		(20,127)	(24,327)
Equity dividends paid		(2,231)	(1,804)
Net cash outflow before financing		(18,867)	(23,105)
Financing			
Ordinary share issue (net of expenses)		2,913	1,386
Expenses of listing particulars		(233)	–
Term bank loan 2008		16,590	22,010
Net cash inflow from financing		19,270	23,396
Increase in cash		403	291
Reconciliation of net cash flow to movement in net debt*	22	2005 £'000	2004 £'000
Increase in cash in the period		403	291
Cash inflow from loans		(16,590)	(22,010)
Loan Stock conversion into Ordinary Shares		4,000	–
Movement in net debt in the period		(12,187)	(21,719)
Net debt at 1 July	22	(75,501)	(53,782)
Net debt at 30 June	22	(87,688)	(75,501)

* Net debt includes the Convertible Loan Stock 2016 during the year ended 30 June 2004 only, due to conversion during the year ended 30 June 2005.

Notes to the Financial Statements

1 (a) Accounting policies

A summary of the principal accounting policies, which have been applied throughout the year and the preceding year, is set out below.

(b) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties.

The financial statements are prepared in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 1985 have been invoked, see investment properties below.

(c) Basis of consolidation

The Group financial statements consolidate the financial statements of Primary Health Properties PLC and its subsidiary undertakings drawn up to 30 June each year. No profit and loss account is presented for Primary Health Properties PLC as permitted by section 230 of the Companies Act 1985.

Entities in which the Group holds an interest on a long-term basis and are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the Group financial statements, joint ventures are accounted for using the gross equity method.

(d) Investment properties

All the Group's completed properties are held for long-term investment. Investment properties are carried at open market value and are accounted for in accordance with SSAP19, as follows:

- (i) investment properties are revalued annually. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and
- (ii) no depreciation is provided in respect of freehold properties. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view since the current value of investment properties and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been included cannot be separately identified or quantified.

(e) Development loans

The Group has entered into development loan agreements with third party developers in respect of certain primary health properties under development. These loans are repayable at the option of the developer at any time. The Group has entered into contracts to purchase the developments when they are completed in accordance with the terms of the contracts. The loans are repayable by the developers in the event that the building work is not completed in accordance with the purchase contract. Interest is charged under the terms detailed in the respective development agreements and taken to the profit and loss account in the year in which it accrues.

(f) Properties held for, or in the course of, development

Properties held for, or in the course of development, are included in the consolidated balance sheet at cost or, on redevelopment if originally held as an investment property, at the previous valuation together with subsequent costs.

Notes to the Financial Statements (continued)

Provision is made, if necessary, to reduce the carrying value of properties held for development and in the course of development to the recoverable amount.

(g) Recognition of income

Rental and fee income is included in these financial statements on an accruals basis.

Interest receivable on short term deposits is accounted for on an accruals basis.

(h) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on a discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Investment in subsidiaries and joint ventures

The carrying values of investments in subsidiaries and joint ventures are reviewed for impairment in periods if events or changes in circumstances indicated that the carrying value may not be recoverable.

(j) Derivative instruments

The Group uses interest rate swaps to adjust interest rate exposures.

The Group criteria for adopting hedge accounting for interest rate swaps are:

- (i) the instrument must be related to a liability; and
- (ii) it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, the gain/loss is spread over the remaining maturity of the original instrument.

(k) Finance leases

Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease. The total net investment in finance leases included in the balance sheet represents total lease payments receivable net of finance lease income relating to future accounting periods.

Notes to the Financial Statements (continued)

2 Turnover

Turnover comprises rental income receivable on property investments in the UK, which is exclusive of VAT, and rentals on finance leases receivable. Turnover is derived from one business segment.

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Rental and fee income	9,339	7,391
Finance lease income	274	270
	<u>9,613</u>	<u>7,661</u>

3 Interest payable

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Convertible loan stock interest	42	310
Bank term loan interest	4,749	2,837
Bank swap interest	108	491
	<u>4,899</u>	<u>3,638</u>

4 Interest receivable

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Bank interest	33	16
Development loan interest	245	167
	<u>278</u>	<u>183</u>

Notes to the Financial Statements (continued)

5 Operating profit is stated after charging

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Management fee (i)	1,218	943
Directors' fees (ii)	97	92
Property management fees	58	56
Bank non-utilisation fees	59	56
Bank charges and loan commitment fees (iii)	–	118
Auditors' remuneration – for audit services	34	27
– for other services	53	26
Legal fees	42	13

- (i) JOHCML, a wholly owned subsidiary of J O Hambro Capital Management Group Limited, and Nexus PHP Management Limited ('NPM'), a subsidiary of Nexus Structured Finance Limited, act as Joint Managers to the Company. Management fees are 1% of the first £50 million of the gross assets of the Group and 0.75% thereafter, measured at the year end.

The management fee calculated and payable for the period to 30 June was as follows:

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
J O Hambro Capital Management Limited ('JOHCML')	553	429
Nexus PHP Management Limited† ('NPM')	287	–
Nexus Property Management Services Limited† ('NPMS')	378	514
	<u>1,218</u>	<u>943</u>

† NPMS novated to NPM on 14 February 2005.

J O Hambro Capital Management Limited is also Company Secretary.

As at 30 June 2005, £48,000 of management fees payable to J O Hambro Capital Management Limited was outstanding (2004: £39,863), and £12,000 was payable to Nexus PHP Management Limited (2004: £8,235).

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
(ii) Directors' fees:		
Total fees	<u>97</u>	<u>92</u>

There were no staff costs.

- (iii) Bank loan commitment fees amounting to £134,000 have been written back during the year ended 30 June 2005 following re-negotiation of loan facility terms.

Notes to the Financial Statements (continued)

5 Operating profit is stated after charging (continued)

(iii) Remuneration of Directors:

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Mr G A Elliot (Chairman)	18,125	17,500
Mr H A Hyman (Managing Director)	13,125	12,500
Mr J D Hambro	13,125	12,500
Mr M Gilbert	13,125	12,500
Professor P Pietroni	13,125	12,500
Mr P Sandford	13,125	12,500
Mr A Dalgliesh	<u>13,125</u>	<u>12,500</u>

The Directors' fees for Mr H A Hyman and Mr A Dalgliesh were paid to NPM. Mr Hyman's family interests are the controlling shareholder of NPM. The Company also paid to NPMS £58,000 (2004: £56,000) property management fees shown on page 37.

The Directors' fees for Mr J D Hambro were paid to JOHCML. Mr J D Hambro is also chairman of J O Hambro Capital Management Group Limited and an indirect shareholder of JOHCML.

6 Taxation

	2005 £'000	2004 £'000
(a) Tax on profit on ordinary activities		
The tax charge is made up as follows:		
<i>Current tax</i>		
UK Corporation tax	<u>–</u>	<u>–</u>
	2005	2004
	£'000	£'000
<i>Deferred tax</i>		
Origination and reversal of timing differences	910	732
Prior year adjustment	(1)	254
Increase in discount	<u>(909)</u>	<u>(986)</u>
	<u>–</u>	<u>–</u>

Notes to the Financial Statements (continued)

6 Taxation (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation	3,030	2,472
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	909	742
Effects of:		
Disallowed expenses and non-taxable income	–	(8)
Capital allowances on non-depreciated investment properties	(909)	(732)
Other timing differences	–	(2)
Current tax charge for the year	<u>–</u>	<u>–</u>

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on capital gains that would have arisen if the Group's investment properties had been sold for their book value at the balance sheet date. The amount unprovided for is approximately £13.3 million (2004: £7.4 million). At present, it is not envisaged that any tax will become payable in the foreseeable future.

	2005 £'000	2004 £'000
(d) Deferred tax		
The deferred tax position is as follows:		
Accelerated capital allowances	4,561	3,652
Other timing differences	–	–
Undiscounted provision for deferred tax	<u>4,561</u>	<u>3,652</u>
Discount	<u>(4,561)</u>	<u>(3,652)</u>
Discounted provision for deferred tax	<u>–</u>	<u>–</u>

Notes to the Financial Statements (continued)

7 Earnings per share

The calculation of earnings per share is based on the following:

	As at 30 June 2005			As at 30 June 2004		
	Net profit attributable to ordinary shareholders		Ordinary shares	Net profit attributable to ordinary shareholders		Ordinary shares
	£'000	number		£'000	number	
			Per share pence			Per share pence
Basic earnings per share	3,030	21,459,735†	14.1	2,472	17,824,559†	13.9
Option conversion*	–	615,402		–	439,074	
Convertible Loan Stock Conversion**	42	926,276		310	3,478,260††	
Diluted earnings per share	3,072	23,001,413	13.4	2,782	21,741,893	12.8

† Weighted average number of Ordinary shares in issue during the year.

†† Adjusted for actual known number of shares, following conversion on 19 August 2004.

* Excess of the total number of potential shares on option exercise over the number that could be issued at fair value as calculated in accordance with Financial Reporting Standard No. 14: Earnings per share.

** The total number of potential shares on conversion of the convertible loan stock.

8 Tangible fixed assets and development loans

	As at 30 June 2005				
	Properties in the course of development	Investment properties freehold/feuhold	Investment properties long leasehold	Development loans	Total
<i>Group</i>	£'000	£'000	£'000	£'000	£'000
Freehold, feuhold and long leasehold properties					
As at 1 July 2004	2,633	106,903	15,730	3,346	128,612
Additions at cost	16,500	376	3	2,796	19,675
Transfer of capital following completion	(16,890)	20,454	–	(3,564)	–
Receipt of interest following completion	–	–	–	(268)	(268)
Revaluation for the year	–	15,415	1,187	–	16,602
As at 30 June 2005	2,243	143,148	16,920	2,310	164,621

Development loans only are held by the Company. All properties in the course of development and investment properties are held by the Group's subsidiaries. Figures shown include accrued interest.

Properties have been independently valued at open market value by Lambert Smith Hampton, chartered surveyors and valuers, as at the balance sheet date in accordance with SSAP 19.

The historical cost of properties held by the Group including properties in the course of development was £118.03 million (2004: £98.35 million).

Notes to the Financial Statements (continued)

9 Investments

	2005	2004
	£'000	£'000
<i>Group</i>		
Joint venture:		
Balance at the beginning of year	–	(31)
Share of profit retained by joint venture	–	4
Loan to joint venture	–	27
	<u>–</u>	<u>–</u>
Balance at end of year	<u>–</u>	<u>–</u>

<i>Company</i>	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
At 1 July 2004	187	94,998	95,185
Loans to subsidiary during the year	–	20,906	20,906
	<u>187</u>	<u>115,904</u>	<u>116,091</u>
At 30 June 2005	<u>187</u>	<u>115,904</u>	<u>116,091</u>

The subsidiaries of the Company are stated below:

<i>Subsidiary</i>	<i>Principal activity</i>	<i>Proportion of voting rights and shares held</i>
Primary Health Investment Properties Limited	Property investment	100%
Primary Health Investment Properties (No. 2) Limited	Property investment	100%
Primary Health Investment Properties (No. 3) Limited	Property investment	100%

All of the principal subsidiaries are directly held.

A full list of subsidiaries will accompany the Annual Return filed at Companies House.

Joint venture

Primary Health Properties PLC own 50% of the issued Ordinary share capital of Primary Health Solutions Limited, a company incorporated on 29 November 2001 for the purpose of developing properties for sale and leaseback and to tender for contracts under the Government's LIFT (Local Improvement Finance Trust) initiative. The remaining 50% of the issued Ordinary share capital is owned by Brackley Investments Limited.

The investment in the joint venture was written off to the profit and loss account during the year ended 30 June 2004 and is no longer trading.

Notes to the Financial Statements (continued)

10 Debtors	2005		2004	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	167	–	215	–
VAT recoverable	–	52	135	233
Prepayments	716	507	375	142
Property purchase deposits paid and property lease extension deferral	772	–	379	–
	<u>1,655</u>	<u>559</u>	<u>1,104</u>	<u>375</u>

11 Creditors: amounts falling due within one year	2005		2004	
	Group £'000	Company £'000	Group £'000	Company £'000
Rents received in advance	2,184	–	1,869	–
VAT payable	88	–	–	–
Other creditors and accruals	3,227	2,606	3,363	2,676
Taxation	681	–	681	–
Proposed dividend	1,359	1,359	998	998
	<u>7,539</u>	<u>3,965</u>	<u>6,911</u>	<u>3,674</u>

12 Creditors: amounts falling due after more than one year

The seven year term loan repayable in 2008 was subject to renegotiation during the year, and now falls repayable in 2013. An additional £40 million of facilities was agreed, making total facilities available of £135 million. Of these facilities £88.8 million was drawn as at 30 June 2005 (2004: £72.2 million) and secured by an unlimited guarantee from each subsidiary and a first fixed charge over the ownership of each property. Interest is payable on the loan at a fixed percentage rate above LIBOR, and interest payable has fluctuated in the year between 5.04% and 5.84%. However, the Company has taken out interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 13.

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found in the Report of the Directors on pages 16 to 17. All of the Group's financial instruments are Sterling denominated. The disclosures below exclude short term debtors and creditors.

Interest rate risk profile of financial liabilities

	Total £'000	Floating rate £'000	Fixed rate £'000
As at 30 June 2005	<u>88,800</u>	<u>33,800</u>	<u>55,000</u>
As at 30 June 2004	<u>76,210</u>	<u>27,210</u>	<u>49,000</u>

The fixed rate profile above consists of:

	Fixed interest rate per annum %	Maturity
£5 million interest rate swap*	5.39	April 2006
£5 million interest rate swap*	5.875	July 2006
£5 million interest rate swap*	5.64	March 2007
£5 million interest rate swap*	4.82	July 2008
£5 million interest rate swap*	4.16	July 2008
£10 million interest rate swap*	5.14	April 2006
£10 million interest rate swap*	4.82	January 2015
£10 million interest rate swap*	5.03	July 2014

* In addition to the fixed rate a variable margin, currently a weighted average of 0.811% per annum, is charged.

The Company has also entered into additional interest rate swap contracts that commence after the year-end as follows:

	Start date	Fixed interest rate per annum %	Maturity
£15 million interest rate swap	April 2006	5.14	July 2006
£20 million interest rate swap	July 2006	5.14	March 2007
£10 million interest rate swap	March 2007	5.20	March 2013
£20 million interest rate swap	January 2010	4.735	January 2015
Rollercoaster Swap:-			
£12.5 million interest rate swap	July 2006	4.6375	July 2007
£20 million interest rate swap	July 2007	4.6375	July 2008
£25 million interest rate swap	July 2008	4.6375	July 2009
£5 million interest rate swap	July 2009	4.6375	July 2012
£13.3 million interest rate swap	July 2012	4.6375	July 2013
£20 million interest rate swap	July 2013	4.6375	July 2014

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

	Fixed rate Weighted average interest rate %	Weighted average period for which rate is fixed years
As at 30 June 2005	5.97	4.37
As at 30 June 2004	6.25	2.84

Interest rate profile of financial assets

The interest rate profile of the financial assets of the Group as at 30 June was as follows:

	Total £'000	Financial assets Fixed rate £'000	Floating rate £'000
As at 30 June 2005	5,945	2,523	3,422
As at 30 June 2004	6,604	2,549	4,055

Floating rate financial assets comprise cash at bank on which interest is earned at monthly rates, and development loans on which interest is charged between 1.1% and 1.5% above Bank of England base rate. Fixed rate financial assets comprise finance leases. The weighted average interest on the fixed rate financial assets are 11.29% (2004: 11.28%), of which the aggregate rentals on assets to the value of £2,424,000 increase at a minimum of 2.5% per annum until maturity. The weighted average period for financial assets on which fixed rate interest is paid is 26 years (2004: 27 years).

Fixed rate financial assets in the sum of £2,452,000 (2004: £2,466,000) mature in more than five years. The floating rate financial assets mature in less than one year.

Maturity of financial liabilities	2005 £'000	2004 £'000
-----------------------------------	---------------	---------------

The maturity profile of the Group's financial liabilities at 30 June was as follows:

In more than two years, but no more than five*	–	72,210
In more than five years*	88,800	4,000
	<u>88,800</u>	<u>76,210</u>

* During the year ended 30 June 2005, the Group renegotiated the terms of the long term loan facility to mature in 2013 but still has an option to convert its facilities into longer term finance maturing in 2022.

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

Borrowing facilities

During the year the Company entered into £40 million of new term loan commitments. Total available facilities at 30 June 2005 amounted to £135 million (2004: £95 million). The undrawn committed facilities available at 30 June in respect of which all conditions precedent had been met at that date are as follows:

	2005 £'000	2004 £'000
Expiring in one year or less	10,000	10,000
Expiring in more than two years	36,200	12,790
	<u>46,200</u>	<u>22,790</u>

The Group has negotiated an option to extend its ability to convert all of the term facilities into longer term finance that would mature in 2022.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities:

	Book value 2005 £'000	Fair value 2005 £'000	Book value 2004 £'000	Fair value 2004 £'000
Primary financial instruments:				
Long term borrowings	(88,800)	(88,800)	(76,210)	(76,210)
Convertible loan stock	–	–	(4,000)	(8,522)
Long term debtors – finance leases	2,523	5,051	2,549	5,455
Cash	1,112	1,112	709	709
Development loans	2,310	2,310	3,346	3,346
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	–	(1,846)	–	715

Market values have been used to determine the fair value of interest rate swaps. The fair value of the convertible loan stock is based on the mid-market Ordinary share value of £3.105 (2004: £2.45) at the year end. The fair value of the net investment in finance leases has been determined by the Directors by discounting the future receipts from those leases at the Group's current cost of capital.

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

Hedging strategy

The Group's policy is to hedge interest rate risk exposure at an appropriate level.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on financial instruments used for hedging are as follows:

	Gains £'000	Losses £'000	Total £'000
Gains and losses unrecognised as at 30 June 2005	<u>24</u>	<u>(1,870)</u>	<u>(1,846)</u>
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2006	<u>12</u>	<u>(373)</u>	<u>(361)</u>
Gains and losses included in the profit and loss account that arose in previous years	<u>44</u>	<u>(152)</u>	<u>(108)</u>
Gains and losses unrecognised as at 30 June 2004	<u>841</u>	<u>(126)</u>	<u>715</u>
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2005	<u>85</u>	<u>(139)</u>	<u>(54)</u>
Gains and losses included in the profit and loss account that arose in previous years	<u>3</u>	<u>(494)</u>	<u>(491)</u>

14 Called up share capital	2005		2004	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of 50p each	<u>40,000,000</u>	<u>20,000</u>	<u>40,000,000</u>	<u>20,000</u>
Issued and fully paid at 50p each	<u>22,652,776</u>	<u>11,326</u>	<u>18,147,133</u>	<u>9,074</u>

Notes to the Financial Statements (continued)

14 Called up share capital (continued)

On 19 August 2004, the holder of the Convertible Loan Stock 2016 exercised their option to convert the Loan Stock into Ordinary Shares of 50p each resulting in the issue of 3,478,260 Ordinary Shares.

On 18 March 2005, the Company issued a further 1,000,000 Ordinary shares of 50p each, at a price of 300p per share, via a placing, raising £2.9 million (net of expenses).

In respect of the final dividend for the year ended 30 June 2004, and the interim dividend for the year ending 30 June 2005, Shareholders were offered the opportunity to receive Ordinary shares in lieu of the cash dividend. Holders of a total of 1,203,742 shares elected to receive Ordinary shares instead of a cash dividend resulting in the issue of 27,383 new Ordinary shares, in respect of the final dividend for the year ended 30 June 2004.

The scrip dividend alternative for the interim dividend for the year ending 30 June 2005 was withdrawn as the middle market quotation derived from the Stock Exchange's Daily Official List for the final date of receipt of the forms of election fell by more than 10% from 314.7p, the average of the middle market price during the calculation period. No ordinary shares were issued.

15 Share premium account

	2005		2004	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning of year	7,459	7,459	6,689	6,689
Premium on issue of 50p Ordinary shares following placing participation	2,500	2,500	–	–
Premium on issue of 50p Ordinary shares following exercise of options	–	–	693	693
Premium on issue of 50p Ordinary shares on exercise of convertible Loan Stock 2016	2,261	2,261	–	–
Premium on issue of 50p Ordinary shares in lieu of cash dividend	52	52	78	78
Expenses of listing particulars	(233)	(233)	–	–
Issue expenses	(87)	(87)	(1)	(1)
Balance at end of year	<u>11,952</u>	<u>11,952</u>	<u>7,459</u>	<u>7,459</u>

16 Capital reserve

	2005		2004	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning and end of year	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>

Notes to the Financial Statements (continued)

17	Revaluation reserve	2005	2004
		Group	Group
		£'000	£'000
	Balance at beginning of year	30,303	20,253
	Uplift in valuation during the year	16,602	10,050
	Balance at end of year	<u>46,905</u>	<u>30,303</u>

18	Profit and loss account	2005		2004	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
	Balance at beginning of year	1,399	1,123	991	802
	Retained profit for the year	372	362	404	321
	Share of operating profit in joint venture	–	–	4	–
	Balance at end of year	<u>1,771</u>	<u>1,485</u>	<u>1,399</u>	<u>1,123</u>

At the year-end, the Company's distributable reserves included with the profit and loss account above, were £632,000 (2004: £270,000).

19	Reconciliation of shareholders' funds	2005		2004	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
	Opening Shareholders' funds	49,853	19,274	37,909	17,467
	Increase in revaluation reserve	16,602	–	10,050	–
	Profit for the year	3,030	3,020	2,472	2,385
	Dividends paid and proposed	(2,658)	(2,658)	(1,995)	(1,995)
	Additional final dividend 2003*	–	–	(69)	(69)
	Gross proceeds from issue of Ordinary shares	3,065	3,065	1,487	1,487
	Conversion of Loan Stock 2016	4,000	4,000	–	–
	Share issue costs	(320)	(320)	(1)	(1)
	Closing Shareholders' funds	<u>73,572</u>	<u>26,381</u>	<u>49,853</u>	<u>19,274</u>

* Additional final dividend 2003 – as a result of the Joint Managers exercise of options to purchase 1,386,667 Ordinary shares on 17 September 2003, they were entitled, as holders of these new shares on the register at 26 September 2003, to receive the final dividend in respect of the year ended 30 June 2003.

Notes to the Financial Statements (continued)

20	Net asset value per share	2005	2004
		pence	pence
	Ordinary share – basic	324.78	274.72
	– diluted	314.64	243.65

The basic net asset value per Ordinary share is based on net assets attributable to Ordinary Shareholders of £73,572,000 (2004: £49,853,000) and on 22,652,776 (2004: 18,147,133) shares, being the number of shares in issue at the year end.

Diluted net asset value per share is calculated as follows:

		2005	2004
		£'000	£'000
	Net assets:		
	Per Consolidated Balance Sheet	73,572	49,853
	Add – Loan Stock conversion	–	4,000
	– Receipts assuming exercise of options	2,736	2,736
		<u>76,308</u>	<u>56,589</u>
		2005	2004
	Ordinary shares:		
	Issued share capital	22,652,776	18,147,133
	Add – Loan Stock conversion into shares	–	3,478,260†
	– New shares issued assuming exercise of options	1,600,000	1,600,000
		<u>24,252,776</u>	<u>23,225,393</u>

Calculations assume that the dilution takes place on the respective balance sheet dates.

† Adjusted for Ordinary shares issued on conversion of the loan stock on 19 August 2004.

21 **Total return per share**

The total return per share is calculated as the increase in net asset value per share (see note 20) plus the dividend per share.

The diluted total return per share is based on the diluted increase in net asset value per share (see note 20) and the dividend per share.

Calculations assume that the dilution takes place at the respective balance sheet dates.

Notes to the Financial Statements (continued)

22 Notes to the statement of cash flow

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2005	2004
	£'000	£'000
Operating profit	7,651	5,923
Decrease in operating debtors and prepayments	(158)	(289)
Increase in operating creditors and accruals	240	533
Net cash inflow from operating activities	<u>7,733</u>	<u>6,167</u>

(b) Analysis of net debt

	2005			
	Opening	Cashflow	Non cash	Closing
	£'000	£'000	movements	£'000
			£'000	
Cash at bank	709	403	–	1,112
Bank loans	(72,210)	(16,590)	–	(88,800)
Convertible loan stock	(4,000)	–	4,000	–
	<u>(75,501)</u>	<u>(16,187)</u>	<u>4,000</u>	<u>(87,688)</u>

23 Capital commitments

Primary Health Investment Properties Limited, a wholly owned subsidiary of the Company, has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of approximately £19.7 million plus VAT (2004: £18.2 million plus VAT). In addition, the Group has a maximum commitment to the joint venture of £2.5 million.

24 Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £19.9 million (2004: £24.2 million).

25 Related party transactions

Details of related party transactions are provided in the Report of the Directors on pages 18 and 19, and note 5 on pages 37 and 38.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Primary Health Properties PLC will be held on 15 November 2005 at 10.30am in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the following purposes:

As Ordinary Business

1. To receive and adopt the Report of the Directors and the audited financial statements for the year ended 30 June 2005;
2. To declare a final dividend of 6.0p per share;
3. To receive the Directors' Remuneration Report;
4. To re-elect Dr I Rutter as a Director of the Company;
5. To re-elect Mr G A Elliot as a Director of the Company;
6. To re-elect Mr M J Gilbert as a Director of the Company;
7. To re-elect Mr J D Hambro as a Director of the Company;
8. To re-appoint Ernst & Young LLP as Auditors and authorise the Directors to fix their remuneration.

As Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions, with the exception of Resolution 9 which will be proposed as an Ordinary Resolution.

9. THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Companies Act 1985 ('the Act')) up to an aggregate nominal amount of £3,775,462 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
10. THAT, subject to and conditional upon the passing of resolution number 9 set out in the notice of the meeting, the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash as if Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the Ordinary Shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and
 - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £566,319;

and shall expire at the conclusion of the Annual General Meeting of the Company after the date of the passing of this resolution except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

Notice of Annual General Meeting (continued)

11. THAT the Company be generally and unconditionally authorised, in accordance with Section 166 of the Act, to make market purchases (within the meaning of Section 163 of the Act) of Ordinary shares of 50p each in the capital of the Company ('Ordinary shares') on such terms and in such manner as the Directors may from time to time determine provided that:
- (a) the maximum number of Ordinary shares authorised to be purchased is 2,652,776;
 - (b) the minimum price which may be paid for an Ordinary share is 50p (the nominal value) (exclusive of expenses (if any) payable by the Company);
 - (c) the maximum price which may be paid for an Ordinary share is an amount equal to 105% of the average of the middle market quotations for an Ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is purchased (exclusive of expenses (if any) payable by the Company); and
 - (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
22 September 2005

Registered Office:

Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

Registered in England No. 03033634

Notes

1. Any member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. To be valid, completed forms must be received at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.
3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
 - (a) the register of Directors' interests in shares of the Company;
 - (b) there are no service contracts.
4. The Company specifies, pursuant to Regulations 41 of the Uncertificated Securities Regulations 2001, that only those Shareholders registered in the register of members of the Company as at 6pm on 20 September 2005 shall be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

Shareholder Information

Financial Calendar

Financial year end	30 June
Preliminary Results	September
Annual Report	October
Annual General Meeting	November
Dividend payment	November
Interim end	31 December
Interim figures announced	March
Interim Dividend payment	May

Final Dividend calendar

Record date	30 September 2005
Ex-dividend date	28 September 2005
Payment date	21 November 2005

Scrip Dividend Calendar for Final Dividend for year ended 30 June 2005

Posting of forms of election	7 October 2005
Final date for receipt of forms of election	31 October 2005
Despatch dividends payable, dividend warrants and definitive shares certificate	21 November 2005
Dealings expected to commence in new Ordinary shares	22 November 2005
CREST accounts credited	22 November 2005

Annual General Meeting

The Company's Annual General Meeting will be held on 15 November 2005 commencing at 10.30am in the Board Room at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB.

Share Save Plan

The Company has made arrangements for a Share Save Plan to be made available to allow investors to purchase the Company's shares. The Primary Health Properties Share Save Plan is operated by Capita IRG Trustees Limited and is designed to allow lump sum and regular savings to facilitate the purchase of the Company's shares.

For details of the plan please contact:

Capita IRG Trustees Limited
 ITSS Department
 The Registry
 34 Beckenham Road
 Beckenham
 Kent BR3 4TU
 or alternatively telephone 0870 162 3100.

Capita IRG Trustees Limited is authorised and regulated by the FSA.

As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

Shareholder Information (continued)

Share Price

The Company's mid market share price is quoted daily in the Financial Times appearing under "Real Estate".

Share Dealing

Investors wishing to purchase more Ordinary shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service.

The Company's registrars are Capita Registrars. In the event of any queries regarding your holding of shares, please contact the registrars on 020 8639 2000, e-mail address: ssd@capitaregistrars.com.

Changes of name or address must be notified to the registrars in writing at:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Capita Share Dealing Services

A quick and easy share dealing service is available to either sell or buy more shares. An on-line and telephone dealing facility is available providing shareholders with an easy to access and simple to use service.

The table below provides you with details of the associated charges:

	Type of trade	
	Online	Telephone
Share certificates	1% of the value of the deal (Minimum £17.50, max £40)	1.25% of the value of the deal (Minimum £20, max £50)
	All transactions incur a Compliance charge of £2.50	

There's no need to pre-register and there are no complicated forms to fill in. The on-line and telephone dealing service allows you to trade "real time" at a known price which will be given to you at the time you give your instruction.

To deal on-line or by telephone all you need is your surname, shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest statement or Certificate where it will appear as either a 'folio number' or 'investor code'. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service, or to buy and sell shares, please contact:

- www.capitadeal.com (on-line dealing)
- 0870 458 4577 (telephone dealing)

General Information About the Company

General information about the Company can be seen on the PHP web site at www.phpgroup.co.uk. Alternatively you may contact Harry Hyman or Adam Dalglish on 01483 306912.

Corporate Profile

Directors

G A Elliot (Chairman)
H A Hyman (Managing Director)
A D S Dalgliesh (Property Director)
M J Gilbert (W J C Hemmings: alternate)
J D Hambro
Professor P C Pietroni
P Sandford
Dr I Rutter

Joint Managers

Nexus PHP Management Limited
Alexandra House
Alexandra Terrace
Guildford GU1 3DA
01483 306912

J O Hambro Capital Management Limited
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
020 7747 5678

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Stockbrokers

Numis Securities Limited
Cheapside House
138 Cheapside
London EC2V 6LH

Solicitors

Nabarro Nathanson
Lacon House
Theobald's Road
London WC1X 8RW

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Company Secretary and Registered Office

J O Hambro Capital Management Limited
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
020 7747 5682
Fax: 020 7747 5611

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

Allied Irish Banks, p.l.c.

St Helen's
1 Undershaft
London EC3A 8AB

Notes

Modern Accommodation for the delivery of primary healthcare services



Craig y Don Medical Practice, Llandudno,
NorthWales (£1.6m)
Completion of New Development for a 5 GP Practice and Pharmacy



Bentley Medical Centre, Bentley,
Walsall Cheshire (£3.7m)
Completion of New Development for the local PCT and Pharmacy



Blenheim Medical Centre, Luton,
Bedfordshire (£1.9m)
Completion of New Development for a 3 GP Practice



Burton Latimer Medical Centre, Burton Latimer,
Northamptonshire (£1.5m)
Completion of New Development for a 4 GP Practice



Example of a recently completed medical centre waiting room



Example of a recently completed medical centre reception room

PRIMARY HEALTH PROPERTIES PLC

for further information contact:-

Harry Hyman or Adam Dalglish at PHP

01483 306912 or visit the PHP Website

www.phpgroup.co.uk