Primary Health Properties PLC

Interim Report for the six months ended 31 December 2005

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 General Practitioners ('GPs'), NHS Trusts, Health Authorities and other associated health care users.

Group Financial Highlights

	Six months to 31 December 2005	Year to 30 June (restated) 2005	Six months to 31 December (restated) 2004
Annualised delivered rent roll	**£11.1m**	£10.0m	£9.8m
Profit before taxation	**£9.4m**	£19.4m	£5.9m
Earnings per share – diluted	**33.0p**	55.4p	18.4p
Adjusted earnings per share** – diluted	**6.5p**	12.3p	5.7p
Paid and proposed dividends relating to the period, net per share***	**6.75p**	12.0p	6.0p
Net assets	**£62.3m**	£57.1m	£46.7m
Net asset value per share – diluted	**267.8p**	246.6p	212.6p
Adjusted net asset value per share* – diluted	**345.8p**	320.2p	268.7p
Portfolio owned and leased (including deposits paid)	**£188m**	£167m	£146m
Portfolio commitments	**£22m**	£20m	£14m
Portfolio purchased and committed	**£210m**	£187m	£160m
Investment properties valuation increase	**£7.8m**	£16.6m	£4.7m
Borrowings	**£102.0m**	£88.8m	£84.5m

* excluding deferred tax.
** excluding deferred tax and revaluation gains on property.
*** proposed dividends will not tie up to the figures shown in the accounts, due to the implication of IFRS 21.

Chairman's Statement

This is the first time that Group results have been prepared, using International Financial Reporting Standards ('IFRS'). Accordingly, the Group's results for the comparative periods have been restated. This change of accounting basis has had no effect on the underlying business performance or strategy of the Group, but IFRS does represent a fundamental change in accounting and reporting. This interim report includes reconciliations (in the form of transition statements in the notes to the accounts) and describes for Shareholders the key impacts of the conversion from UK GAAP to IFRS. The commentary in note 6 of the financial statements explains the changes in accounting policies that have been brought about as a result of the conversion to IFRS.

The Group has made significant progress during the six months ended 31 December 2005. Group profit before taxation, which, under IFRS, includes the benefit of revaluation gains on investment properties, for the six months to 31 December 2005, totalled £9,365,000 (2004: £5,915,000), an increase of 58%. Diluted earnings per share, which include the benefit of revaluation gains on investment properties, were 33.0p, an increase of 79% over the first half of last year (18.4p).

Adjusted diluted earnings per share for the first half were 6.5p, 14% higher than the interim period last year (5.7p).

The Board proposes to pay an interim dividend of 6.75p per share, a rise of 0.75p per share over last year's interim dividend. The dividend will be paid on 22 May 2006 to Shareholders on the Register of Members on 18 April 2006.

The Board has decided that the expense of a scrip dividend scheme is no longer justified and have made alternative arrangements with the Registrar, Capita Trustees Limited, to offer a dividend reinvestment scheme for Shareholders who wish to reinvest their dividend as shares. A letter explaining this scheme, together with terms and conditions and an application form, is posted to Shareholders with this Interim Report.

As a result of the regular six-monthly review of the property portfolio, the value of the portfolio has increased by £7.8m, with the diluted net asset value per share increasing by 9% to 267.8p per share compared to 246.6p at 30 June 2005. This increase reflects both higher rents and the tightening of yields in the market. On an adjusted basis, adding back deferred tax on timing differences on revaluation gains and removing deferred tax on hedging derivatives, the diluted net asset value was 345.8p (30 June 2005: 320.2p) (see note 4).

Chairman's Statement – *continued*

During the six months ended 31 December 2005 we have taken delivery of £12m of completed and fully let properties at Stockton on Tees, Cardiff, Hednesford, Haddenham, Stafford and Gateshead and entered into new commitments totalling £10m during the period at Clowne, Luton and Mawsley.

The table below sets out the portfolio as at 31 December 2005:

	31 December 2005 £m	30 June 2005 £m	31 December 2004 £m
Investment properties	**180.2**	160.0	139.2
Properties in the course of development	**3.2**	2.2	2.4
Total investment properties	**183.4**	162.2	141.6
Development loans	**1.8**	2.2	1.7
Finance leases	**2.5**	2.5	2.5
Total owned and leased	**187.7**	166.9	145.8
Deposit paid	**0.2**	0.4	0.1
Committed	**22.0**	19.7	14.1
Total owned, leased and committed	**209.9**	187.0	160.0

Although there have been reports of funding delays within the NHS, we have a strong forward pipeline of transactions. The Group welcomes the publication of the recent Government White Paper, 'Our Health, our Care, our Say: a New Direction for Community Services', and notes that this foresees a transfer of approximately 5% of the NHS budget into the primary care arena and an increasing role for the private sector.

The annualised rent roll has increased from £10.0m at 30 June 2005 to £11.1m at 31 December 2005, representing both new deliveries and rental increases. Rental increases secured during the period amounted to £48,000. On balance, we continue to obtain satisfactory rent reviews.

We have continued to monitor our exposure to interest rates and, during the period, have entered into new swaps. The gearing of the Group was 53% as at 31 December 2005 and from 2 January 2006 we have covered 81% of our exposure to interest rates for the current financial year. We have broadly similar hedging in place for the next nine years.

The share save scheme has 36 members representing 68,257 shares. Further details can be found on the Company's website www.phpgroup.co.uk.

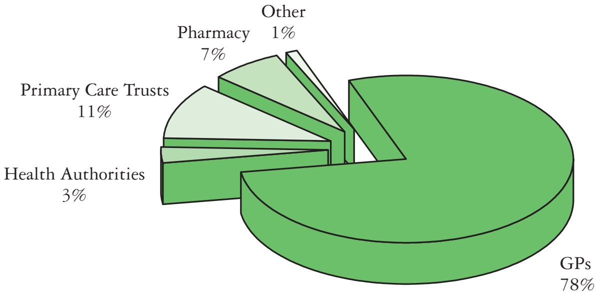
Since the end of 2005, the Group has continued to purchase new properties. It has also disposed of James Pringle House, Charlotte Street, London W1 and Scotswood House, Newcastle for a total net consideration of £7.3m. Both properties had leases with less than 10 years to run and were not used as primary care centres, one being a sexual health clinic and the other being the headquarters of an ambulance service. The disposals increase the weighted average lease length of the portfolio and will enable the proceeds to be applied to the core business of the Group.

The portfolio now has some 78 properties with a further 11 contracted for delivery. The portfolio has performed extremely well and we believe that the combination of the high-quality property portfolio, long lease lengths and strong covenant quality make a desirable portfolio for future income and capital appreciation.

The Group notes the Budget statement issued by HM Treasury today and we will be considering the implications for the Group.

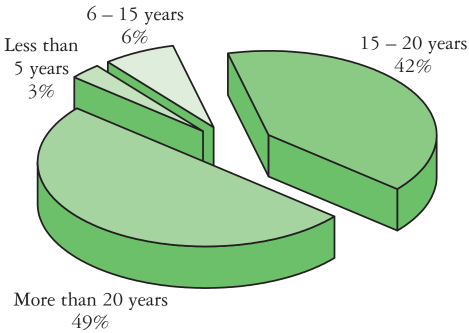
G A Elliot
Chairman 22 March 2006

Covenant Analysis by Annual Rent

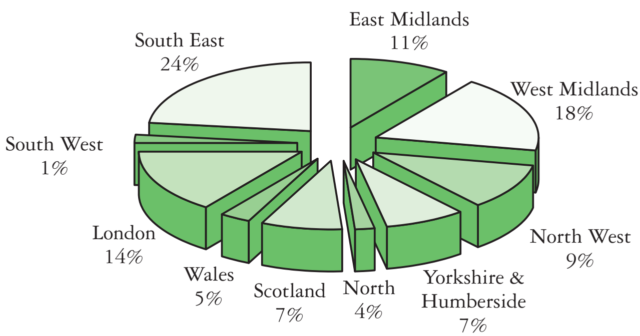


An analysis of the annualised rent roll of £11.1 million at 31 December 2005.

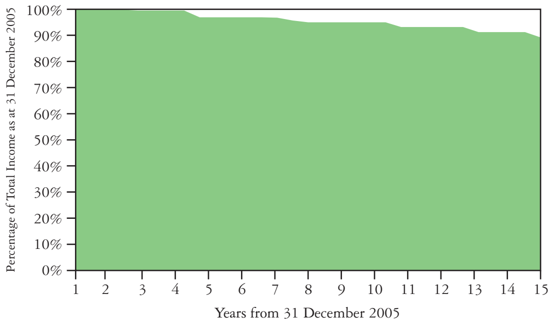
Analysis of Annualised Rent by Lease Term Unexpired



Analysis of Rental Income by Geographical Region

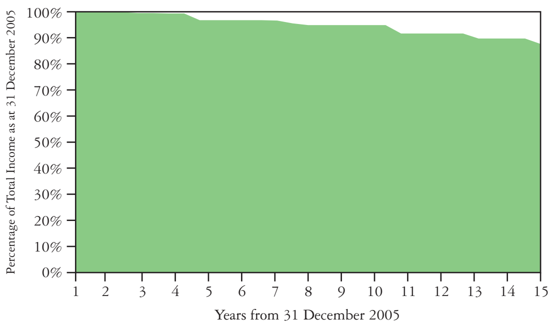


Security of Income by Lease Expiry



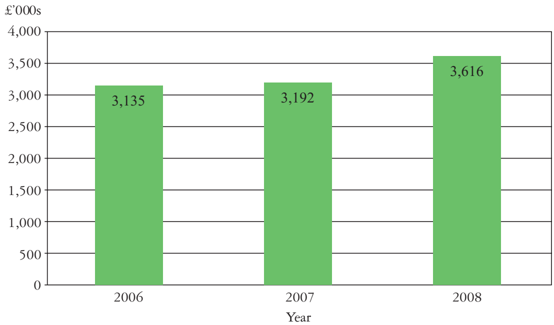
The graph above shows that by year 15 the Group would still be receiving 89% of its current income.

Security of Income by Term Certain



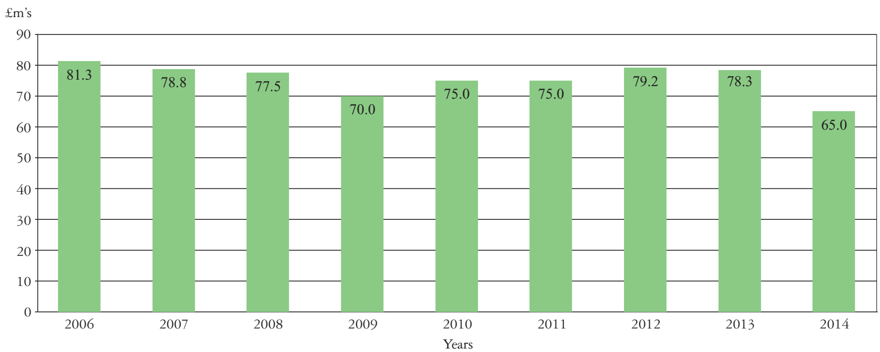
The graph above shows that by year 15 the Group would still be receiving 88% of its current income.

Rent Reviews by Annual Rent



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

Fixed Rate Funding

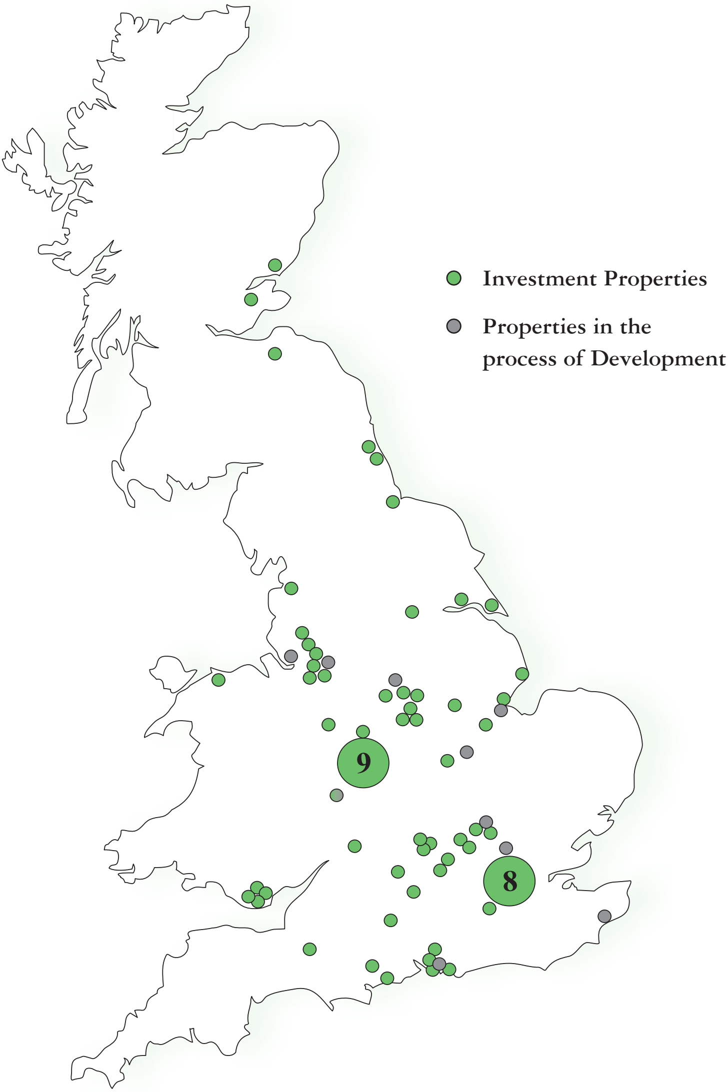


The bar chart above shows the level of fixed rate financing from Swaps.

Current net borrowings at 31 December 2005 were £99m excluding future commitments of £22m.

Property Portfolio at 31 December 2005

www.phpgroup.co.uk



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

Group Income Statement
for the six months ended 31 December 2005

	Note	Six months ended 31 December 2005 £'000 (unaudited)	Year ended 30 June 2005 £'000 (audited)	Six months ended 31 December 2004 £'000 (unaudited)
Rental income		5,303	9,339	4,444
Finance lease income		140	274	136
Rental and related income		5,443	9,613	4,580
Net valuation gain on property portfolio		7,837	16,602	4,694
Administrative expenses		(1,308)	(2,207)	(1,154)
		6,529	14,395	3,540
Operating profit before financing costs		11,972	24,008	8,120
Finance income		161	278	162
Finance costs		(2,768)	(4,899)	(2,367)
Profit before tax		9,365	19,387	5,915
Current taxation		–	–	–
Deferred taxation		(1,639)	(6,713)	(1,897)
Profit for the period*		7,726	12,674	4,018
Earnings per share – basic	3	34.1p	59.1p	19.4p
– diluted	3	33.0p	55.4p	18.4p
Adjusted earnings per share – basic	3	6.7p	13.0p	5.9p
– diluted	3	6.5p	12.3p	5.7p

* Wholly attributable to equity shareholders of Primary Health Properties PLC

All activities are continuing.

Group Balance Sheet
at 31 December 2005

	Note	At 31 December 2005 £'000 (unaudited)	At 30 June 2005 £'000 (audited)	At 31 December 2004 £'000 (unaudited)
Non current assets				
Investment properties	2	183,430	162,311	141,561
Development loans		1,758	2,310	1,762
Net investment in finance leases		2,510	2,523	2,536
		187,698	167,144	145,859
Current assets				
Trade and other receivables		1,678	1,655	1,453
Cash and cash equivalents		2,236	1,112	3,340
		3,914	2,767	4,793
Total assets		191,612	169,911	150,652
Current liabilities:				
Deferred income		(2,347)	(2,184)	(2,050)
Corporation tax payable		(681)	(681)	(681)
Trade and other payables		(3,472)	(3,315)	(3,712)
		(6,500)	(6,180)	(6,443)
Non-current liabilities:				
Term loan		(102,000)	(88,800)	(84,460)
Deferred tax		(18,930)	(17,860)	(13,044)
Derivatives		(1,896)	–	–
		(122,826)	(106,660)	(97,504)
Total liabilities		(129,326)	(112,840)	(103,947)
Net assets		62,286	57,071	46,705
Equity:				
Share capital		11,339	11,326	10,826
Share premium		12,022	11,952	9,566
Capital reserve		1,618	1,618	1,618
Cash flow hedging reserve		(1,327)	–	–
Retained earnings		38,634	32,175	24,695
Total equity*		62,286	57,071	46,705

Group Balance Sheet
at 31 December 2005 – *continued*

	Note	At 31 December 2005 pence (unaudited)	At 30 June 2005 pence (audited)	At 31 December 2004 pence (unaudited)
Net asset value				
– basic	4	**274.66p**	251.94p	215.70p
– diluted	4	**267.83p**	246.60p	212.62p
Adjusted net asset value				
– basic	4	**358.13p**	330.78p	275.94p
– diluted	4	**345.80p**	320.24p	268.72p

* Wholly attributable to equity holders of Primary Health Properties PLC

These accounts have been prepared in accordance with the accounting policies set out in note 1 on pages 16 to 23.

Group Statement of Changes in Net Equity (unaudited) for the six months ended 31 December 2005

	Share capital £'000	Share premium £'000	Capital reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
30 June 2005	11,326	11,952	1,618	–	32,175	57,071
Opening adjustment to reserves for IAS 39	–	–	–	(1,292)	–	(1,292)
As restated 1 July 2005	11,326	11,952	1,618	(1,292)	32,175	55,779
Profit for the period	–		–	–	7,726	7,726
Losses on cashflow hedges taken to equity	–	–	–	(50)	–	(50)
Deferred tax on cashflow hedges taken to equity	–	–	–	15	–	15
Total recognised income and expenses for the period	–	–	–	(35)	7,726	7,691
Issue of shares	13	74	–	–	–	87
Issue expenses	–	(4)	–	–	–	(4)
Share based payment charge	–	–	–	–	92	92
Dividends paid and declared:						
Final dividend for the year ended 30 June 2005	–	–	–	–	(1,359)	(1,359)
31 December 2005	**11,339**	**12,022**	**1,618**	**(1,327)**	**38,634**	**62,286**

Group Statement of Changes in Net Equity (unaudited) for the year ended 30 June 2005

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
30 June 2004	9,074	7,459	1,618	21,553	39,704
Profit for the period	–	–	–	12,674	12,674
Total recognised income and expenses for the period	–	–	–	12,674	12,674
Issue of shares	2,252	4,813	–	–	7,065
Issue expenses	–	(320)	–	–	(320)
Share based payment charge	–	–	–	245	245
Dividends paid and declared:					
Final dividend for the year ended 30 June 2004	–	–	–	(998)	(998)
Interim dividend for the year ended 30 June 2005	–	–	–	(1,299)	(1,299)
30 June 2005	**11,326**	**11,952**	**1,618**	**32,175**	**57,071**

Group Statement of Changes in Net Equity (unaudited) for the six months ended 31 December 2004

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
30 June 2004	9,074	7,459	1,618	21,553	39,704
Profit for the period	–	–	–	4,018	4,018
Total recognised income and expenses for the period	–	–	–	4,018	4,018
Issue of shares	1,752	2,345	–	–	4,097
Issue expenses	–	(238)	–	–	(238)
Share based payments charge	–	–	–	122	122
Dividends paid and declared:					
Final dividend for the year ended 30 June 2004	–	–	–	(998)	(998)
31 December 2004	10,826	9,566	1,618	24,695	46,705

These accounts have been prepared in accordance with the Accounting policies the Group expects to apply when the Company prepares its first complete set of IFRS financial statements as at 30 June 2006. Applicable accounting policies and transition statements as required by IFRS 1: First-Time Adoption are included in the notes to this interim report.

Group Cash Flow Statement
for the six months ended 31 December 2005

	Six months ended 31 December 2005 £'000 (unaudited)	Year ended 30 June 2005 £'000 (audited)	Six months ended 31 December 2004 £'000 (unaudited)
Operating activities			
Group operating profit before financing costs	11,972	24,008	8,120
Adjustments to reconcile group operating profit to net cash flows from operating activities			
Less: Revaluation gains on property	(7,837)	(16,602)	(4,694)
Plus: Share based payment expense	92	245	122
Increase in trade and other receivables	(196)	(158)	(177)
Increase in trade and other payables	160	240	117
Cash generated from operations	4,191	7,733	3,488
Interest received	114	300	11
Interest paid	(3,897)	(4,275)	(1,898)
Net cash flow from operating activities	408	3,758	1,601
Investing activities			
Payments to acquire tangible fixed assets	(10,459)	(17,451)	(8,741)
Development loans advanced	(749)	(2,550)	(1,171)
Deposits paid	–	(393)	(172)
Net cash flow from investing activities	(11,208)	(20,394)	(10,084)
Financing activities			
Ordinary share issue (net of expenses)	(4)	2,680	(204)
Term bank loan	13,200	16,590	12,250
Equity dividends paid	(1,272)	(2,231)	(932)
Net cash flow from financing activities	11,924	17,039	11,114

Group Cash Flow Statement
for the six months ended 31 December 2005 – *continued*

	Six months ended 31 December 2005 £'000 (unaudited)	Year ended 30 June 2005 £'000 (audited)	Six months ended 31 December 2004 £'000 (unaudited)
Increase in cash and cash equivalents for the period	**1,124**	403	2,631
Cash and cash equivalents at start of period	**1,112**	709	709
Cash and cash equivalents at end of period	**2,236**	1,112	3,340

Notes to the Interim Financial Statements

1. Accounting policies

Basis of preparation/Statement of compliance

For the year ended 30 June 2006 the Group will be required to prepare consolidated financial statements under 'International Financial Reporting Standards' ('IFRS') as adopted by the European Commission. These will be those International Accounting Standards, International Financial Reporting Standards and related interpretations ('SIC-IFRIC interpretations'), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Commission. This process is ongoing.

The preliminary opening balance sheet and IFRS comparatives, together with the current period numbers and the reconciliations between UK GAAP and IFRS have been prepared using best knowledge of the expected standards and interpretations of the IASB, facts and circumstances, and accounting policies that will be applied when the company prepares its first complete set of IFRS financial statements as at 30 June 2006, as set out below. Therefore, until such time, the possibility cannot be excluded that the financial information presented may require adjustment before constituting final financial information. The Group's transition date for the adoption of IFRS is 1 July 2004. The provisions of IFRS 2 'Share based payments' have been applied in respect of grants of equity instruments after 7 November 2002. IAS 32 and IAS 39 have been applied prospectively from 1 July 2005.

The financial information contained in this report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The full financial statements for the year ended 30 June 2005 were prepared under UK GAAP, did not contain a statement under section 237(2) or (3) of the Companies Act 1985 and together with an unqualified audit report have been delivered to the Registrar of Companies.

Convention

The financial statements are presented in Sterling rounded to the nearest thousand.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Primary Health Properties PLC, and its wholly owned subsidiary undertakings as at 30 June each year. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of the subsidiary undertakings are prepared for the accounting reference period ending 30 June each year using consistent accounting policies. All intercompany balances and transactions including unrealised profits arising from them, are eliminated.

Investment properties

All of the Group's completed properties are held for long-term investment. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value based on a professional valuation made as of each reporting date. The fair value of investment property does not reflect future capital exenditure that will improve or enhance the property and does not reflect future benefits from this furure expenditure.

Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise.

Investment properties cease to be recognised for accounting purposes when they have been disposed of. Any gains and losses arising are recognised in the income statement in the year of disposal.

Notes to the Interim Financial Statements – *continued*

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 properties under development 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 contracts. Interest is charged under the terms detailed in the respective development agreements and taken to the income statement in the year in which it accrues.

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.

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.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in primary health care property in the United Kingdom leased principally to GPs, NHS Trusts, Health Authorities and other associated health care users.

Income

Revenue is recognised to the extent that it is probable that the benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Interest income

Revenue is recognised as interest accrues (using effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.)

Dividends

Revenue is recognised when the Group's right to receive payment is established.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short term deposits and with an original maturity of three months or less. Bank overdrafts that are repayable on demand which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the Interim Financial Statements – *continued*

Bank loans and borrowings

All loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes with the following exceptions:

- where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised:

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Dividends payable to shareholders

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

As the individual financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP, the introduction of IFRS will not affect the distributable reserves available to the Group.

Derivatives, financial instruments and hedging

The Group uses derivative financial instruments, such as interest rate swaps to hedge its risks associated with exposure to interest rate fluctuations and the resulting variability in cash flows.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

Any gains and losses arising from changes in the fair value of the derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Notes to the Interim Financial Statements – *continued*

Under IFRS1 the Group has taken advantage of the exemption that allows first time adopters to not restate comparative information on financial instruments. Thus comparative information is prepared in accordance with UK GAAP, under which the values of financial instruments are not required to be brought on to the balance sheet. The Group has adopted IAS 32 and IAS 39 prospectively from 1 July 2005 under which interest rate swap contracts are accounted for as cash flow hedges with their fair value stated in the Group's balance sheet at the year-end.

Leases – Group as a lessor

Assets leased out under operating leases are included within investment properties, and rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangements is classified as a finance lease and a receivable is recogonised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Share based payments

Share based payments are measured at fair value at the date of grant with an equivalent amount charged over the vesting period to the income statement. The fair value has been calculated using a derivative pricing model known as Black-Scholes formula using assumptions deemed to be consistent with the price that one might expect the incentive to have if it were traded in the markets.

Equity settled transactions

The cost of equity-settled transactions with the Manager is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the Manager becomes fully entitled to the award. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and the Manager's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Notes to the Interim Financial Statements – *continued*

2. The freehold and leasehold properties are included at valuation as at 31 December 2005.

3. The calculation of diluted earnings per share as at 31 December 2005 is based on the following:

Earnings per share for the six months ended 31 December 2005

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	7,726	22,658,334	34.1
Option conversion*	–	782,328	
Diluted earnings per share	7,726	23,440,662	33.0

Adjusted earnings per share for the six months ended 31 December 2005

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	7,726	22,658,334	34.1
Adjustments to remove:			
Deferred tax charge	1,639		
Net valuation gains on valuation of property	(7,837)		
Adjusted basic earnings per share	1,528	22,658,334	6.7
Option conversion*	–	782,328	
Adjusted diluted earnings per share	1,528	23,440,662	6.5

Earnings per share for the year ended 30 June 2005

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	12,674	21,459,735	59.1
Option conversion*	–	549,187	
Convertible Loan Stock Conversion**	42	926,276	
Diluted earnings per share	12,716	22,935,198	55.4

Adjusted earnings per share for the year ended 30 June 2005

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	12,674	21,459,735	59.1
Adjustments to remove:			
Deferred tax charge	6,713		
Net valuation gains on valuation of property	(16,602)		
Adjusted basic earnings per share	2,785	21,459,735	13.0
Option conversion*	–	549,187	
Convertible Loan Stock Conversion**	42	926,276	
Adjusted diluted earnings per share	2,827	22,935,198	12.3

Notes to the Interim Financial Statements – *continued*

Earnings per share for the six months ended 31 December 2004

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	4,018	20,704,623	19.4
Option conversion*	–	411,003	
Convertible Loan Stock Conversion**	42	926,276	
Diluted earnings per share	4,060	22,041,902	18.4

Adjusted earnings per share for the six months ended 31 December 2004

	Net profit attributable to Ordinary Shareholders £'000	Ordinary^ shares number	Per share pence
Basic earnings per share	4,018	20,704,623	19.4
Adjustments to remove:			
Deferred tax charge	1,897		
Net valuation gains on valuation of property	(4,694)		
Adjusted basic earnings per share	1,221	20,704,623	5.9
Option conversion*	–	411,003	
Convertible Loan Stock Conversion**	42	926,276	
Adjusted diluted earnings per share	1,263	22,041,902	5.7

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

* 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 International Accounting Standard No. 33: Earnings per share.

** The total number of shares arising on conversion of the convertible Loan Stock.

The dilutive effect of options

Pursuant to an agreement dated 17 September 2003 between the Company, Nexus Property Management Services Limited novated to Nexus PHP Management Ltd ('NPM') and J O Hambro Capital Management Ltd ('JOHCM'), NPM and JOHCM were granted options to subscribe for a total of 1.6 million shares in the proportion 1,120,000 shares to NPM and 480,000 shares to JOHCM at a subscription price of 171 pence per share. These options are exercisable at any time between 31 March 2006 and 31 March 2013, provided that, on the basis of the latest published audited financial statements of the Company, the basic net asset value per share (adding back all gross distributions paid on each share) has increased since the date of grant at a rate in excess of the equivalent of a compound annual growth rate of seven per cent. At 31 December 2005 this condition had been met.

The dilutive effect of Convertible Loan Stock

The Convertible Loan Stock 2016 was issued in units of £250,000. The loan stock units were redeemable at par on 31 March 2016, unless previously converted at the option of the holder. The loan stock was convertible into Ordinary shares of 50p each at the rate of one 50p Ordinary share for every unit of £1.15 in nominal value of stock tendered for conversion. On 19 August 2004, the holder of the Convertible Loan Stock 2016 exercised their option to convert all of the Loan Stock into Ordinary shares of 50p each. As a result 3,478,260 Ordinary shares were issued.

Notes to the Interim Financial Statements – *continued*

4. Diluted net asset value has been calculated as follows:

	31 December 2005 £'000 (unaudited)	30 June 2005 £'000 (audited)	31 December 2004 £'000 (unaudited)
Net assets:			
Per Group Balance Sheet	**62,286**	57,071	46,705
Add – Receipts from the exercise of options	**2,736**	2,736	2,736
	65,022	59,807	49,441
	No. of shares	No. of shares	No. of shares
Ordinary shares:			
Issued share capital	**22,677,718**	22,652,776	21,652,776
Add – New shares issued on exercise of options	**1,600,000**	1,600,000	1,600,000
	24,277,718	24,252,776	23,252,776
Diluted net asset value per share	**267.83p**	246.60p	212.62p

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

Diluted adjusted net asset value per share.

	31 December 2005 £'000 (unaudited)	30 June 2005 £'000 (audited)	31 December 2004 £'000 (unaudited)
Net assets	**62,286**	57,071	46,705
Adjustments to add back:			
Deferred tax on timing differences	**5,045**	4,561	4,054
Deferred tax on revaluation gains	**14,454**	13,299	8,990
Adjustment to remove:			
Deferred tax on derivatives	**(569)**	–	–
Adjusted net assets	**81,216**	74,931	59,749
Add – Receipts from the exercise of options	**2,736**	2,736	2,736
	83,952	77,667	62,485
	No. of shares	No. of shares	No. of shares
Ordinary shares:			
Issued share capital	**22,677,718**	22,652,776	21,652,776
Add – New shares issued on exercise of options	**1,600,000**	1,600,000	1,600,000
	24,277,718	24,252,776	23,252,776
Diluted adjusted net asset value per share	**345.80p**	320.24p	268.72p

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

Notes to the Interim Financial Statements – *continued*

5. UK GAAP to IFRS reconciliations

Transition to IFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice ('UK GAAP'). These interim financial statements, for the period ended 31 December 2005, are the first the Group is required to prepare in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 July 2004 and its previously published UK GAAP financial statements for the period ended 31 December 2004 and for the year ended 30 June 2005.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for its first IFRS year end, retrospectively. The Group has taken the following exemptions:

- Comparative information on financial instruments is prepared in accordance with UK GAAP and the Group has adopted IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement from 1 July 2005.

5(a). Reconciliation of group income year ended 30 June 2005

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
Rental income	9,339	–	9,339
Finance lease income	274	–	274
Rental and related income	9,613	–	9,613
Net valuation gain on property portfolio	–	16,602	16,602
Administrative expenses	(1,962)	(245)	(2,207)
	(1,962)	16,357	14,395
Operating profit before financing costs	7,651	16,357	24,008
Finance income	278	–	278
Finance costs	(4,899)	–	(4,899)
	(4,621)	–	(4,621)
Profit before tax	3,030	16,357	19,387
Deferred taxation	–	(6,713)	(6,713)
Profit for the period	3,030	9,644	12,674

Notes to the Interim Financial Statements – *continued*

5(b). Reconciliation of group income 6 months ended 31 December 2004

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
Rental income	4,444	–	4,444
Finance lease income	136	–	136
Rental and related income	4,580	–	4,580
Net valuation gain on property portfolio	–	4,694	4,694
Administrative expenses	(1,032)	(122)	(1,154)
	(1,032)	4,572	3,540
Operating profit before financing costs	3,548	4,572	8,120
Finance income	162	–	162
Finance costs	(2,367)	–	(2,367)
	(2,205)	–	(2,205)
Profit before tax	1,343	4,572	5,915
Deferred taxation	–	(1,897)	(1,897)
Profit for the period	1,343	2,675	4,018

5(c). Reconciliation of group equity at 1 July 2004 (date of transition)

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 1 July 2004 £'000
Non-current assets			
Investment properties	125,266	–	125,266
Development loans	3,346	–	3,346
Net investment in finance leases	2,549	–	2,549
	131,161	–	131,161
Current assets			
Trade and other receivables	1,104	–	1,104
Cash and cash equivalents	709	–	709
	1,813	–	1,813
Total assets	132,974	–	132,974
Current liabilities			
Other payables	(5,232)	–	(5,232)
Corporation tax payable	(681)	–	(681)
Proposed dividend	(998)	998	–
	(6,911)	998	(5,913)
Non-current liabilities			
Term loan	(72,210)	–	(72,210)
Convertible loan stock 2016	(4,000)	–	(4,000)
Deferred tax	–	(11,147)	(11,147)
	(76,210)	(11,147)	(87,357)
Total liabilities	(83,121)	(10,149)	(93,270)
Net assets	49,853	(10,149)	39,704

Notes to the Interim Financial Statements – *continued*

5(c). Reconciliation of group equity at 1 July 2004 (date of transition) – *continued*

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 1 July 2004 £'000
Equity			
Share capital	9,074	–	9,074
Share premium	7,459	–	7,459
Capital reserve	1,618	–	1,618
Revaluation reserve	30,303	(30,303)	–
Retained earnings	1,399	20,154	21,553
Total equity	49,853	(10,149)	39,704
	pence	pence	pence
Net asset value per share			
Basic	274.72	(55.93)	218.79
Fully diluted	243.65	(43.70)	199.95
Ordinary shares in issue	18,147,133	18,147,133	18,147,133
Fully diluted net assets:			
Issued capital and reserves from above	49,853	(10,149)	39,704
Conversion of loan stock	4,000	–	4,000
Receipts from the exercise of options	2,736	–	2,736
	56,589	(10,149)	46,440
Fully diluted Ordinary shares in issue:			
Issued share capital	18,147,133	18,147,133	18,147,133
Loan stock conversion into Ordinary shares	3,478,260	3,478,260	3,478,260
New shares issued on exercise of options	1,600,000	1,600,000	1,600,000
	23,225,393	23,225,393	23,225,393

5(d). Reconciliation of group equity at 31 December 2004

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 31 December 2004 £'000
Non-current assets			
Investment properties	141,561	–	141,561
Development loans	1,762	–	1,762
Net investment in finance leases	2,536	–	2,536
	145,859	–	145,859
Current assets			
Trades and other receivables	1,453	–	1,453
Cash and cash equivalents	3,340	–	3,340
	4,793	–	4,793
Total assets	150,652	–	150,652
Current liabilities			
Other payables	(5,762)	–	(5,762)
Corporation tax payable	(681)	–	(681)
Proposed dividend	(1,299)	1,299	–
	(7,742)	1,299	(6,443)
Non-current liabilities			
Term loan	(84,460)	–	(84,460)
Deferred tax	–	(13,044)	(13,044)
	(84,460)	(13,044)	(97,504)
Total liabilities	(92,202)	(11,745)	(103,947)
Net assets	58,450	(11,745)	46,705

Notes to the Interim Financial Statements – *continued*

5(d). Reconciliation of group equity at 31 December 2004 – *continued*

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 31 December 2004 £'000
Equity			
Share capital	10,826	–	10,826
Share premium	9,566	–	9,566
Capital reserve	1,618	–	1,618
Revaluation reserve	34,997	(34,997)	–
Retained earnings	1,443	23,252	24,695
Total equity	58,450	(11,745)	46,705
	pence	pence	pence
Net asset value per share			
Basic	269.94	(54.24)	215.70
Fully diluted	263.13	(50.51)	212.62
Ordinary shares in issue	21,652,776	21,652,776	21,652,776
Fully diluted net assets:			
Issued capital and reserves from above	58,450	(11,745)	46,705
Receipts from the exercise of options	2,736	–	2,736
	61,186	(11,745)	49,441
Fully diluted Ordinary shares in issue:			
Issued share capital	21,652,776	21,652,776	21,652,776
New shares issued on exercise of options	1,600,000	1,600,000	1,600,000
	23,252,776	23,252,776	23,252,776

5(e). Reconciliation of group equity at 30 June 2005

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 30 June 2005 £'000
Non-current assets			
Investment properties	162,311	–	162,311
Development loans	2,310	–	2,310
Net investment in finance leases	2,523	–	2,523
	167,144	–	167,144
Current assets			
Trade and other receivables	1,655	–	1,655
Cash and cash equivalents	1,112	–	1,112
	2,767	–	2,767
Total assets	169,911	–	169,911
Current liabilities			
Other payables	(5,499)	–	(5,499)
Corporation tax payable	(681)	–	(681)
Proposed dividend	(1,359)	1,359	–
	(7,539)	1,359	(6,180)
Non-current liabilities			
Term loan	(88,800)	–	(88,800)
Deferred tax	–	(17,860)	(17,860)
	(88,800)	(17,860)	(106,660)
Total liabilities	(96,339)	(16,501)	(112,840)
Net assets	73,572	(16,501)	57,071

Notes to the Interim Financial Statements – *continued*

5(e). Reconciliation of group equity at 30 June 2005

	UK GAAP under IFRS format £'000	Effect of transition to IFRS £'000	IFRS at 30 June 2005 £'000
Equity			
Share capital	11,326	–	11,326
Share premium	11,952	–	11,952
Capital reserve	1,618	–	1,618
Revaluation reserve	46,905	(46,905)	–
Retained earnings	1,771	30,404	32,175
Total equity	73,572	(16,501)	57,071
	pence	pence	pence
Net asset value per share			
Basic	324.78	(72.84)	251.94
Fully diluted	314.64	(68.04)	246.60
Ordinary shares in issue	22,652,776	22,652,776	22,652,776
Fully diluted net assets:			
Issued capital and reserves from above	73,572	(16,501)	57,071
Receipts from the exercise of options	2,736	–	2,736
	76,308	(16,501)	59,807
Fully diluted Ordinary shares in issue:			
Issued share capital	22,652,776	22,652,776	22,652,776
New shares issued on exercise of options	1,600,000	1,600,000	1,600,000
	24,252,776	24,252,776	24,252,776

5(f) Whilst the format of the cashflow statement is different from UK GAAP, there are no material changes to the Group's cashflows.

6. Notes to the UK GAAP to IFRS reconciliation statements (shown in Note 5)

Basis of preparation

The principal areas where IFRS differs from UK GAAP that affect the consolidated results of the Group are considered below, and as indicated in the reconciliations in Note 5.

Investment poperties (IAS 40)

IAS 40 requires that 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 under operating leases will continue to be classified as investment properties under IFRS and will continue to be revalued every six months.

On transition to IFRS at 1 July 2004, the accumulated net revaluation reserve of £30,303,000 is re-classified into retained earnings. Similar adjustments have been made at 30 June 2005.

Income taxes (IAS 12)

IAS 12 requires full deferred tax provisions 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 will decrease 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 represent an amount of tax that the Group expects to suffer at a future date.

Deferred tax will also be provided on the balance sheet value of cash flow derivatives following the adoption of IAS 32 and IAS 39 from 1 July 2005 (see below).

Notes to the Interim Financial Statements – *continued*

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.

On transition to IFRS on 1 July 2004, there will be a deferred tax provision in the balance sheet of £11,147,000, comprising deferred tax on revaluation gains and deferred tax on accelerated capital allowances, that was not previously required under UK GAAP. Similar adjustments have been made as at 30 June 2005, with the addition of recognition of a deferred tax asset relating to the interest rate swap derivative.

Derivatives (IAS 32/39)

IAS 32 and IAS 39 address the accounting for financial instruments. IAS 32 covers disclosure and presentation whilst IAS 39 covers recognition and measurement.

The Group 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. IAS 39 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 all of its interest rate swap contracts to be fully effective and to account for them as cash flow hedges.

The Group will only adopt IAS 32 and IAS 39 from 1 July 2005 as permitted by the transition arrangements in IFRS 1, on the basis that the Group had appropriate hedging documentation in place throughout the year ended 30 June 2005 and had applied the principles of IAS 32 and IAS 39 during this period. Therefore on 1 July 2005, the fair value of the interest rate swaps (£1,846,000) at that date, together with a related deferred tax asset of £554,000, has been treated as an opening adjustment to reserves, rather than as a restatement of the prior year's balance sheet comparatives.

Dividends (IAS 37)

IFRS requires a dividend declared for distribution to shareholders to be only recorded in a company's accounts when it becomes a contractual obligation which for final dividends in the UK is when approved in General Meeting. UK GAAP, prior to its convergence with IFRS, requires proposed final dividends to be accrued. Therefore, a one-off increase in net asset value at 30 June 2004 of £998,000 will result from this change equivalent to the net cost of the proposed dividend.

As stated above, as the individual company financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP, the introduction of IFRS will not affect PHP's distributable reserves. Accordingly the dividend policy of the Group is not affected by the introduction of IFRS.

Share based payments (IFRS 2)

The Group has incentivised its Joint Managers with the granting of options 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 last financial year, the share options are 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 2 requires the option granted to be measured at its fair value with an equivalent amount charged over the vesting period to the income statement. IFRS 2 must be applied retrospectively, with an adjustment to the opening balance of retained earnings, for share options that were outstanding at 1 July 2004.

Report of the Auditors to Primary Health Properties PLC

We have been instructed by the company to review the financial information for the six months ended 31 December 2005 which comprises the Group Profit and Loss Account, Group Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses and the related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRS's adopted for use by the European Union.

The preliminary opening balance sheet and IFRS comparatives, together with the current period numbers and the reconciliations between UK GAAP and IFRS have been prepared by management using its best knowledge of the expected standards and interpretations of the IASB, facts and circumstances, and accounting policies that will be applied when the company prepares its first complete set of IFRS financial statements as at 30 June 2006.

Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2005.

Ernst & Young LLP
Registered Auditor
London

22 March 2006

Shareholder Information

Interim Dividend Calendar

Post DRIP Application form, DRIP terms and conditions	3 April 2006
Ex-dividend date	12 April 2006
Record date	18 April 2006
Last day for election	21 April 2006
Payment date	22 May 2006
Post share certificates and statements	6 June 2006

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.

Share Price

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

Shareholder Information – *continued*

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 0870 162 3100, 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	

Shareholder Information – *continued*

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, Helen Heard or Tim Walker-Arnott on 01483 306912.

Corporate Profile

Directors
G A Elliot (Chairman)
H A Hyman (Managing Director)
M J Gilbert (W J C Hemmings: alternate)
J D Hambro
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
Dealing enquiries: 0870 162 3100
e-mail address: ssd@capitaregistrars.com
Online dealing: www.capitadeal.com
Telephone dealing: 0870 458 4577

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
Facsimile: 020 7747 5611

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

Allied Irish Banks plc
St Helen's
1 Undershaft
London EC3A 8AB

Registered in England No. 3033634

Modern Accommodation for the delivery of Primary Healthcare Services

Alma Street Medical Centre, Stockton-on-Tees, Teesside (£1.8m)
Completion of the purchase of a 4 GP Practice

Haddenham Medical Centre, Haddenham, Buckinghamshire (£2.3m)
Completion of New Development for a 4 GP Practice and Pharmacy

Teams Medical Practice, Gateshead, Tyne & Wear (£2.1m)
Completion of New Development for a 3 GP Practice and Pharmacy

Wolverhampton Road Surgery, Stafford, Staffordshire (£1.4m)
Completion of New Development for a 4 GP Practice

Birchgrove Surgery, Cardiff, South Wales (£1.7m)
Completion of New Development for a 3 GP Practice and Pharmacy

Hednesford Valley Health Centre, Hednesford, Staffordshire (£2.8m)
Completion of New Development for a 4 GP Practice and Pharmacy

PRIMARY HEALTH PROPERTIES PLC
for further information
contact Harry Hyman or Helen Heard or Tim Walker-Arnott at PHP
01483 306912 or visit the PHP Website
www.phpgroup.co.uk