

# Primary Health Properties PLC

Half year report for the six months ended 30 June 2008



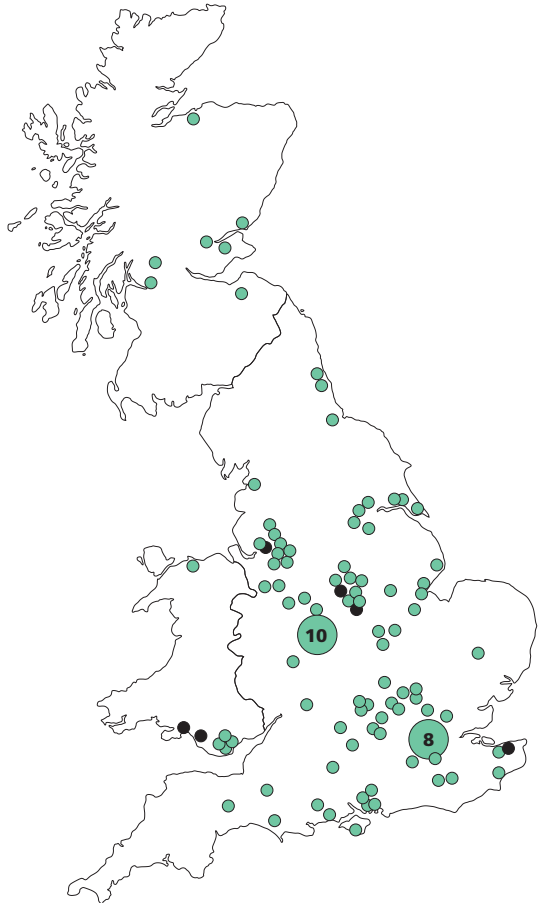
The objective of the Group is to generate rental income and capital growth through investment in primary health care property in the United Kingdom leased principally to GPs, Primary Care Trust ('PCTs'), Health Authorities and other associated health care users.

### PHP's properties

PHP has 106 completed properties and six in the course of development.

Visit the Group's website [www.phpgroup.co.uk](http://www.phpgroup.co.uk) for more information on properties contained within the portfolio.

- Investment properties
- Properties in the course of development



# Primary Health Properties PLC

## Group financial highlights

	Six months to 30 Jun 2008	Six months to 30 Jun 2007	Eighteen months to 31 Dec 2007
Passing rent*	<b>£18.6m</b>	£14.5m	£16.2m
(Loss)/profit before taxation	<b>(£0.5m)</b>	£5.3m	(£3.7m)
(Loss)/earnings per share - basic	<b>(2.1p)</b>	18.9p	59.4p
Earnings per share - adjusted**	<b>8.0p</b>	7.8p	8.2p
Dividends paid during the period	<b>8.25p</b>	7.50p	21.75p
Net assets	<b>£125.4m</b>	£151.1m	£124.1m
Net asset value per share	<b>373.4p</b>	449.8p	369.4p
Portfolio owned and leased	<b>£325.8m</b>	£282.5m	£288.3m
Portfolio commitments including development loans and deposits	<b>£26.9m</b>	£38.5m	£33.3m
Portfolio owned, leased and committed	<b>£352.7m</b>	£321.0m	£324.2m

\* Passing rent represents the annualised rent roll

\*\* Adjusted for capital and non recurring items

	Six months to 30 Jun 2008 £m	Six months to 30 Jun 2007 £m	Eighteen months to 31 Dec 2007 £m
Operating profit before revaluation result and financing	7.0	4.0	5.0
Net financing costs	(4.4)	(3.7)	(10.8)
Fair value gain/(loss) on derivatives	1.6	-	(2.8)
	4.2	0.3	(8.6)
Revaluation (loss)/gain	(4.7)	5.0	4.9
(Loss)/ profit before tax	(0.5)	5.3	(3.7)

## Chairman's statement

Since reporting the last audited figures, the Group has achieved a number of important milestones:

- It has acquired or taken delivery of £42.3m of assets
- Its portfolio including commitments is now £352.7m
- It has 112 primary care centres (106 completed and 6 in the course of development)
- Net asset value increased from 369.4p to 373.4p per Ordinary Share
- New term loan facilities of £50m arranged
- Interim cash dividend of 8.25p proposed for the period ended 30 June 2008

### Results

The results for the Group for the six months ended 30 June 2008 show a loss after taxation of £0.7m, compared with a profit after taxation of £5.2m for the six months ended 30 June 2007. However, this result is after a revaluation deficit on the property portfolio of £4.7m (six months to 30 June 2007 there was a revaluation gain of £5.0m). The results also include a mark to market gain on certain callable swaps (see below) of £1.6m (six months to 30 June 2007: £Nil), partially reversing the mark to market loss of £2.8m on such swaps arising in the last six months of 2007. After allowing for these items which are unrealised and do not affect the cash flow of the business and adjusting for exceptional items in both years, there was an increase of £3.0m in the underlying profit attributable to the business to £7.0m.

During the six month period ended 30 June 2008 there has been a slight weakening of yields. At the period end, the initial yield on the portfolio was 5.55% and the expected reversionary yield was 5.75%.

All swaps are taken out in order to mitigate exposure to interest rate risk, but under accounting rules only certain swaps qualify as "effective" hedges and the mark to market movement on these is matched against the hedged liability in the Balance Sheet. Due to the rise in market rates for money for the six months to 30 June 2008, the value of the Group's "effective" interest rate swaps increased by £4.8m (14p per share). This increase was a significant factor in the uplift in the Net Asset Value from 369.4p to 373.4p, despite the Group reporting an operating loss in the period. The mark to market value fluctuates with movements in term interest rates, and in

the case of the callable swaps, which do not qualify as effective under the hedge accounting rules and the gain or loss on which flows through the Income Statement, with market volatility.

## Rental growth

Although the process for agreeing rental increases has been slower than the Board would have liked, the achieved return on those leases agreed in the six months ended 30 June 2008 was 11.9% over three years.

## Portfolio

The Group purchased a number of properties during the six months ended 30 June 2008, details of which are set out below:

<b>Property</b>	<b>Acquisition cost £m</b>	<b>Occupational tenants</b>
Firdale Medical Centre, Northwich	3.1	Doctors' practice and pharmacy
Rope Green Medical Centre, Shavington	5.0	Doctors' practice and pharmacy
Anchor Mill Medical Centre, Paisley	3.0	Doctors' practice and pharmacy
Cherrymead Surgery, Loudwater	1.7	Doctors' practice
Lossiemouth, Moray Coast Health Centre, Lossiemouth	6.7	Two doctors' practices, RAF practice, PCT and pharmacy
Regent Gardens Surgery, Kirkintilloch	3.0	Doctors' practice
Prospect House, Kettering	11.4	Doctors' practice and pharmacy
Culm Valley Health Centre, Cullompton	7.9	Doctors' practice, PCT and pharmacy
	41.8*	

\* acquisition costs excluding capitalised expenses of £500k.

## Chairman's statement continued

The table below sets out the portfolio as at 30 June 2008.

	<b>30 Jun 2008 £m</b>	<b>31 Dec 2007 £m</b>	<b>30 Jun 2007 £m</b>
Investment properties	<b>319.1</b>	281.7	267.8
Development properties	<b>3.8</b>	2.8	9.2
Properties in the course of development	-	0.8	2.6
<b>Total investment properties</b>	<b>322.9</b>	285.3	279.6
Finance leases	<b>2.9</b>	3.0	2.9
<b>Total owned and leased</b>	<b>325.8</b>	288.3	282.5
Development loans	-	0.2	2.8
<b>Total owned and leased (including development loans)</b>	<b>325.8</b>	288.5	285.3
Committed	<b>26.9</b>	35.7	35.7
<b>Total owned, leased and committed</b>	<b>352.7</b>	324.2	321.0
<b>Passing rent</b> (before delivery of all commitments)	<b>18.6</b>	16.2	14.5

### Property valuation

The freehold, leasehold and development properties of the Group have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2008.

### Discounted cash flow property valuation

In addition to the market value exercise performed by Lambert Smith Hampton, the Joint Managers monitor the value of the Group's completed investment portfolio based on a discounted cash flow analysis. On this basis, the valuation at 30 June 2008 is £355m compared to the market value of £319.1m (31 December 2007: £316.1m compared to the market value of £281.7m). The difference of £35m represents an additional 104p of net asset value per share.

The assumptions used in the discounted cash flow analysis are:

- A discount rate of 7%;
- An average annual increase in the individual property rents in respect of review dates of 3%; and
- Capital growth in residual values of 1% per annum.

### Dividends

On 28 March 2008, the Group paid an ordinary cash interim dividend of 8.25p per Ordinary Share in respect of the six months ended 31 December 2007. The Board is now proposing a cash interim dividend in respect of 2008 of 8.25p payable to Ordinary Shareholders on the register on 17 October 2008 and payable on 20 November 2008. No Property Income Distributions ("PIDs") have been paid since 1 January 2007, when the Board advised that dividends would be either cash, PIDs or a combination of the two. Further details are given on pages 30 and 33.

### Borrowings

During the six months to 30 June 2008, the Group entered into a £50m secured facility to augment its existing facilities of £200m resulting in total current facilities of £250m of which £240m were available on a term loan basis (maturing in 2013) and a further £10m available on an overdraft basis. £203m of these facilities were drawn down as at 30 June 2008 and £159m as at 31 December 2007. This leaves the Group with substantial resources to continue its acquisition policies.

The loan to value ratio at 30 June 2008 was 62% and interest cover was 2.1 times.

### Hedging

The amount of fixed rate cover in place at 30 June 2008 (including £83m of callable swaps) was £193m. The callable swaps were not called on 15 August 2008; the next call date is 11 November 2008.

During the six months ended 30 June 2008, £20m of five year swaps were written at an average swap price of 4.89%. The weighted average pre-margin fixed rate was 5.013%.

A basis rate swap totalling £150m was written in May 2008, maturing in August 2008. This resulted in a cash benefit to the Group of £86k over the period of the swap.

## Chairman's statement continued

### Management incentive scheme

There is no management incentive fee payable for the six months to 30 June 2008 (six months to 30 June 2007: £1.8m).

### Outlook

The investment market for the Group's properties in the primary health sector remains relatively strong, reflecting:

- The excellent covenant that the Group possesses (89% of the Group's rent roll comes directly or indirectly from the Government, with the balance from pharmacies);
- The relatively long lease lengths in place (average 19 years unexpired at 30 June 2008);
- The achievement of rental growth on an ongoing basis; and
- No over supply in the market place. There is little speculative development meaning that new product is generally built to order.

The recent publication of the Darzi report "NHS Next Stage Review Final Report - Our Vision for Primary and Community Care" dated June 2008 has confirmed the objective of procuring a further 150 new medical centres, one in every Primary Care Trust in the country, over the next two years. This reflects the commitment of the Government to renewing the primary care stock and making sure that primary care, which represents the gateway to the NHS, is delivered out of modern, purpose-built accommodation.

Although there is uncertainty in the wider property market, we remain committed to increasing our portfolio on a prudent basis, increasing revenue from existing leases and delivering increases in dividends paid to Shareholders.

The Board considers that mark to market adjustments on both assets and liabilities reflect unrealised profits and losses, whereas cash flow and cash returned to Shareholders in the form of dividends represent more tangible measures of the success of the Group. Notwithstanding the continued turmoil in the banking and money markets, the Board is satisfied with the Group's funding position and remains optimistic about the prospects for the Group.

**G A Elliot**  
Chairman

18 August 2008

# Interim management report for the six months ended 30 June 2008

## **Interim management report for six months ended 30 June 2008 which is provided to comply with the Disclosure and Transparency Rules 4.2.3 and 4.2.7.**

The Chairman's statement contains a review of the performance and developments of the Group for the six months to 30 June 2008 and is incorporated into this report by reference.

The principal risks and uncertainties for the remaining six months of the year to 31 December 2008 continue to be as described in the Report for the eighteen months ended 31 December 2007 on pages 16 to 18.

The Group has engaged an environmental consultant and produced an environmental policy and the Board is not aware of any material environmental issues affecting the utilisation of its assets.

The Joint Managers operate the business on a day-to-day basis.

There is no management incentive fee payable in respect of the six months to 30 June 2008 (six months to 30 June 2007: £1.8m).

Management fees of £1.2m (six months to 30 June 2007: £1.1m) are payable in line with the Joint Management Agreement.

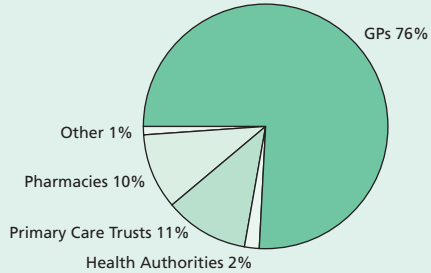
### **Related party transactions**

There have been no changes to the related party arrangements or transactions as reported in the statutory financial statements for the eighteen months ended 31 December 2007.

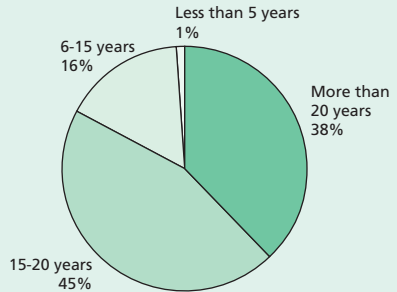
## Interim management report continued

### Covenant analysis of tenant by annual rent

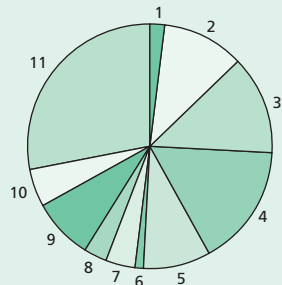
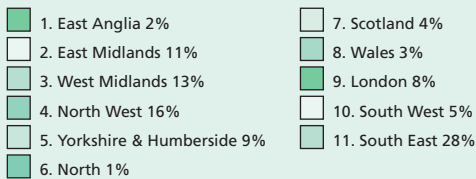
An analysis of the annualised rent roll of £18.6m at 30 June 2008



### Analysis of annualised rent by unexpired lease term

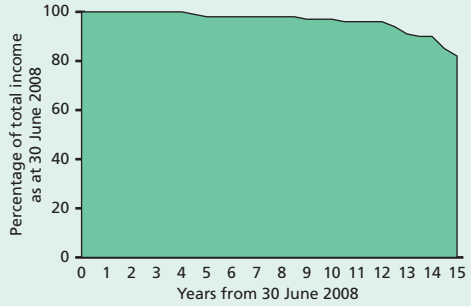


### Analysis of rental income by geographic region



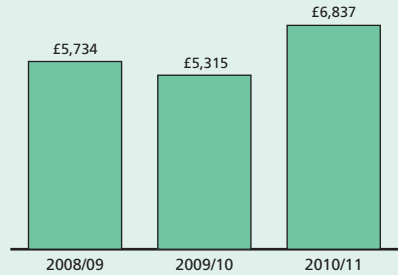
### Security of income by term certain

The graph shows that by year 15, the Group would still be receiving 82% of its current income, taking no account of any lease renewals or rent reviews during the period.



### Rent reviews by annual rent

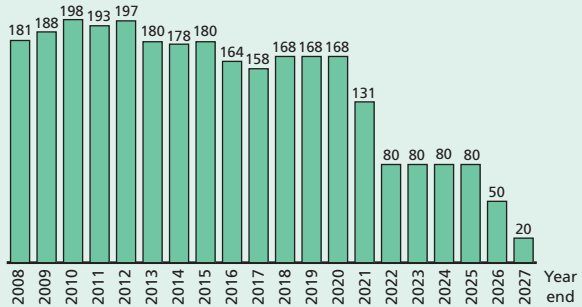
The chart shows the annual amounts of rent falling due for review in each of the next three years. An additional £685k is reviewable after 2011. Chart shown in £000.



## Interim management report continued

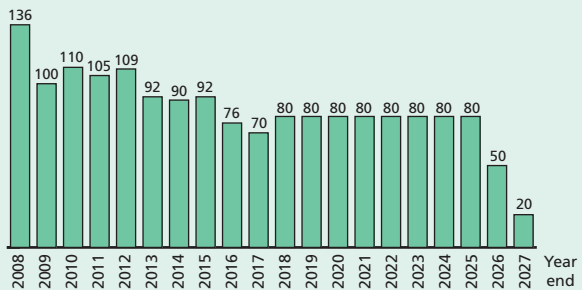
### Finance and interest rate hedging

Chart shows the level of bank borrowings hedged by interest rate swaps for each of the next twenty financial years (assuming callable swaps are not called). Shown in £m.



### Finance and interest rate hedging

Chart shows the level of bank borrowings hedged by both hedge accounted interest rate swaps and callable swaps for each of the next twenty years. Shown in £m.



### **Responsibility statement required by the Disclosure and Transparency Rule (DTR) 4.2.10**

To the best of our knowledge and belief, the condensed financial statements for the six months to 30 June 2008 have been prepared in accordance with IAS34 "Interim Financial Reporting" as adopted by the European Union. The interim management report includes a fair review of the developments and performance of the business of the issuer and its undertakings included in the consolidation taken as a whole.

The interim management report includes a fair review of the information required on material transactions with related parties and there have been no changes in these arrangements since the last report for the eighteen months ended 31 December 2007.

For and on behalf of the Board of Primary Health Properties PLC

**G A Elliot**  
Chairman

18 August 2008



### Sandown Medical Centre Sandown, Isle of Wight

Tenant: GP practice and pharmacy  
Purchase: September 2007  
NIA: 14,500 sqft  
Cost: £3.7m  
Developer: Sapphire Primary Care Developments



### Rope Green Medical Centre Shavington, Cheshire

Tenants: GP practice and pharmacy  
Purchase: February 2008  
NIA: 14,500 sqft  
Cost: £5.0m  
Developer: Sapphire Primary Care Developments



### Anchor Mill Medical Centre Paisley, Scotland

Tenants: GP practice and pharmacy  
Purchase: January 2008  
NIA: 11,500 sqft  
Cost: £3.0m  
Developer: Sapphire Primary Care Developments



### Regent Gardens Surgery Kirkintilloch, Scotland

Tenant: GP practice  
Purchase: March 2008  
NIA: 12,500 sqft  
Cost: £3.0m  
Developer: Sapphire Primary Care  
Developments



### Culm Valley Integrated Centre for Health Cullompton, Devon

Tenants: PCT  
Purchase: May 2008  
NIA: 27,000 sqft  
Cost: £7.9m  
Developer: Haven Health Properties



# Independent review report to Primary Health Properties PLC

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the Group Income Statement, Group Balance Sheet, Group Cash Flow Statement, Group Statement of Changes in Equity and the related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE 2410") 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 half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards "IFRS" as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## Scope of review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards

on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Ernst & Young LLP**  
**Registered Auditor**

London

18 August 2008

# Group income statement

## for the six months ended 30 June 2008

	Notes	Six months ended 30 Jun 2008 £000 (unaudited)	Six months ended 30 Jun 2007 £000 (unaudited)	Eighteen months ended 31 Dec 2007 £000 (audited)
<b>Rental income</b>		<b>9,095</b>	6,985	21,301
<b>Finance lease income</b>		<b>126</b>	604	908
<b>Rental and related income</b>		<b>9,221</b>	7,589	22,209
<b>Net valuation (loss)/gain on property portfolio</b>		<b>(4,724)</b>	5,055	4,857
<b>Impairment loss</b>	4	-	-	(3,750)
<b>Net gain on disposal of property</b>		-	-	44
<b>Administrative expenses</b>		<b>(2,102)</b>	(3,450)	(7,646)
<b>Exceptional items:</b>				
• Goodwill impairment	4	<b>(90)</b>	(126)	(5,551)
• UK-REIT conversion costs		-	-	(195)
<b>Operating profit before financing</b>		<b>2,305</b>	9,068	9,968
<b>Finance income</b>		<b>1,949</b>	718	2,178
<b>Finance costs</b>		<b>(6,369)</b>	(4,444)	(13,022)
<b>Fair value gain/(loss) on derivatives</b>		<b>1,608</b>	-	(2,808)
<b>(Loss)/profit before tax</b>		<b>(507)</b>	5,342	(3,684)
Current taxation	9	<b>(28)</b>	(103)	(100)
Conversion to UK-REIT charge	9	<b>(160)</b>	-	(5,157)
Deferred taxation charge for the period	9	-	-	(3,880)
Deferred taxation release on conversion to UK-REIT	9	-	-	29,622
<b>Taxation (expense)/credit</b>		<b>(188)</b>	(103)	20,485
<b>(Loss)/profit for the period*</b>		<b>(695)</b>	5,239	16,801

\* Wholly attributable to equity shareholders of Primary Health Properties PLC.  
The above relates wholly to continuing operations.

	Notes	Six months ended 30 Jun 2008 £000 (unaudited)	Six months ended 30 Jun 2007 £000 (unaudited)	Eighteen months ended 31 Dec 2007 £000 (audited)
<b>(Loss)/earnings per share</b>				
• basic	5	<b>(2.1)p</b>	18.9p	59.4p
<b>Adjusted earnings per share**</b>				
• basic	5	<b>8.0p</b>	7.8p	8.2p
<b>Dividends paid</b>	8			
Third interim dividend period ended 31 December 2007 (8.25p)		<b>2,771</b>	-	-
Second interim dividend period ended 31 December 2007 (7.5p)		-	-	2,519
First interim dividend period ended 31 December 2007 (7.5p)		-	1,821	1,821
Final dividend year ended 30 June 2006 (6.75p)		-	-	1,639

\*\* Adjusted earnings per share excludes capital and non recurring items to give a better indication of dividend cover for the period.

# Group balance sheet

## at 30 June 2008

	Notes	At 30 Jun 2008 £000 (unaudited)	At 30 Jun 2007 £000 (unaudited)	At 31 Dec 2007 £000 (audited)
<b>Non current assets</b>				
Investment properties	3	319,071	270,434	282,495
Development properties	3	3,848	9,174	2,853
Development loans		33	2,826	182
Net investment in finance leases		2,889	2,905	2,914
Derivative interest rate swaps		6,522	7,905	1,651
		<b>332,363</b>	293,244	290,095
<b>Current assets</b>				
Trade and other receivables	6	4,353	3,459	4,186
Net investment in finance leases		52	49	53
Cash and cash equivalents		4,022	3,692	3,862
		<b>8,427</b>	7,200	8,101
<b>Total assets</b>		<b>340,790</b>	300,444	298,196
<b>Current liabilities</b>				
Derivative interest rate swaps		(1,200)	-	(2,808)
Corporation tax payable		(57)	(289)	(29)
UK-REIT conversion charge payable	1	(1,413)	(1,012)	(1,208)
Deferred rental income		(4,212)	(3,138)	(3,660)
Trade and other payables		(2,426)	(5,142)	(3,576)
		<b>(9,308)</b>	(9,581)	(11,281)
<b>Non-current liabilities</b>				
Term loans		(202,683)	(135,650)	(159,219)
UK-REIT conversion charge payable	1	(3,093)	(4,145)	(3,395)
Derivative interest rate swaps		(277)	-	(224)
		<b>(206,053)</b>	(139,795)	(162,838)
<b>Total liabilities</b>		<b>(215,361)</b>	(149,376)	(174,119)
<b>Net assets</b>		<b>125,429</b>	151,068	124,077

	Notes	At 30 Jun 2008 £000 (unaudited)	At 30 Jun 2007 £000 (unaudited)	At 31 Dec 2007 £000 (audited)
<b>Equity</b>				
Share capital		16,794	16,794	16,794
Share premium		48,009	48,012	48,009
Capital reserve		1,618	1,618	1,618
Cash flow hedging reserve		6,245	7,905	1,427
Retained earnings		52,763	76,739	56,229
<b>Total equity*</b>		<b>125,429</b>	151,068	124,077
<b>Net asset value per share</b>				
• basic	10	<b>373.4p</b>	449.8p	369.4p

\* Wholly attributable to equity shareholders of Primary Health Properties PLC.

These financial statements have been prepared in accordance with the accounting policies set out in the latest statutory report for the eighteen month period ended 31 December 2007.

# Group cash flow statement

## for the six months ended 30 June 2008

	Six months ended 30 Jun 2008 £000 (unaudited)	Six months ended 30 Jun 2007 £000 (unaudited)	Eighteen months ended 31 Dec 2007 £000 (audited)
<b>Operating activities</b>			
(Loss)/profit before tax	(507)	5,342	(3,684)
Less: Finance income	(1,949)	(718)	(2,178)
Plus: Finance costs	6,369	4,444	13,022
Plus: Fair value (gain)/loss on derivatives	(1,608)	-	2,808
Operating profit before financing	2,305	9,068	9,968
<i>Adjustments to reconcile Group operating profit to net cash flows from operating activities:</i>			
Plus: Revaluation losses/(gains) on property	4,724	(5,055)	(4,857)
Less: Gains on disposal of property	-	-	(44)
Plus: Impairment loss	-	-	3,750
Plus: Goodwill impairment	90	126	5,551
Increase in trade and other receivables	(459)	(1,110)	(1,177)
Increase/(decrease) in trade and other payables	188	917	(448)
<b>Cash generated from operations</b>	6,848	3,946	12,743
Interest received from developments	206	35	-
UK REIT conversion charge instalment	(553)	-	(554)
Taxation paid	-	(15)	(272)
<b>Net cash flow from operating activities</b>	6,501	3,966	11,917
<b>Investing activities</b>			
Receipts from disposal of investment properties	-	-	464
Payments to acquire investment properties	(35,025)	(16,824)	(48,972)
Development loans advanced	-	(1,509)	(2,671)
Interest received on developments	-	-	281
Bank interest received	134	27	83
Acquisition of Cathedral	-	(410)	(30,924)
Cash acquired on acquisition of Cathedral	-	-	174
Acquisition of Northwich and Shavington	(7,988)	-	-
<b>Net cash flow used in investing activities</b>	(42,879)	(18,716)	(81,565)

	<b>Six months ended 30 Jun 2008 £000</b> (unaudited)	<b>Six months ended 30 Jun 2007 £000</b> (unaudited)	<b>Eighteen months ended 31 Dec 2007 £000</b> (audited)
<b>Financing activities</b>			
Proceeds from issue of shares (net of expenses)	-	38,752	41,443
Term bank loan drawdowns	<b>54,245</b>	14,900	47,050
Term bank loan repayment	<b>(10,500)</b>	(32,500)	-
Interest paid	<b>(4,436)</b>	(4,718)	(12,977)
Equity dividends paid	<b>(2,771)</b>	(1,821)	(5,979)
<b>Net cash flow from financing activities</b>	<b>36,538</b>	14,613	69,537
<b>Increase/(decrease) in cash and cash equivalents for the period</b>	<b>160</b>	(137)	(111)
<b>Cash and cash equivalents at start of period</b>	<b>3,862</b>	3,829	3,973
<b>Cash and cash equivalents at end of period</b>	<b>4,022</b>	3,692	3,862

# Group statement of changes in equity (unaudited)

## for the six months ended 30 June 2008

	Share capital £000	Share prem- ium £000	Capital reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
<b>1 January 2008</b>	16,794	48,009	1,618	1,427	56,229	124,077
Loss for the period	-	-	-	-	(695)	(695)
Transfer to income statement on cash flow hedges	-	-	-	(1,621)	-	(1,621)
<b>Income and expense recognised directly in equity:</b>						
Gain on cash flow hedges taken to equity	-	-	-	6,439	-	6,439
Total recognised income and expense for the period	-	-	-	4,818	(695)	4,123
Dividends paid:						
Third interim dividend for period ended 31 December 2007 (8.25p)	-	-	-	-	(2,771)	(2,771)
<b>30 June 2008</b>	<b>16,794</b>	<b>48,009</b>	<b>1,618</b>	<b>6,245</b>	<b>52,763</b>	<b>125,429</b>

# Group statement of changes in equity (unaudited)

## for the six months ended 30 June 2007

	Share capital £000	Share prem- ium £000	Capital reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
<b>1 January 2007</b>	12,139	13,943	1,618	1,166	73,321	102,187
Profit for the period	-	-	-	-	5,239	5,239
Transfer to income statement on cash flow hedges	-	-	-	295	-	295
<b>Income and expense recognised directly in equity:</b>						
Gain on cash flow hedges taken to equity	-	-	-	6,444	-	6,444
Total recognised income and expense for the period	-	-	-	6,739	5,239	11,978
Issue of shares (net of expenses)	4,655	34,069	-	-	-	38,724
Dividends paid:						
First interim dividend for period ended 31 December 2007 (7.5p)	-	-	-	-	(1,821)	(1,821)
<b>30 June 2007</b>	<b>16,794</b>	<b>48,012</b>	<b>1,618</b>	<b>7,905</b>	<b>76,739</b>	<b>151,068</b>

# Group statement of changes in equity (audited)

## for the eighteen months ended 31 December 2007

	Share capital £000	Share prem- ium £000	Capital reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
<b>1 July 2006</b>	11,339	12,022	1,618	939	45,407	71,325
Profit for the period	-	-	-	-	16,801	16,801
Transfer to income statement on cash flow hedges	-	-	-	(1,231)	-	(1,231)
<b>Income and expense recognised directly in equity:</b>						
Gain on cash flow hedges taken to equity	-	-	-	1,317	-	1,317
Deferred tax on cash flow hedges*	-	-	-	402	-	402
Total recognised income and expense for the period	-	-	-	488	16,801	17,289
Issue of shares (net of expenses)	5,455	35,987	-	-	-	41,442
Dividends paid:						
Final dividend for the year ended 30 June 2006 (6.75p)	-	-	-	-	(1,639)	(1,639)
First interim dividend for the period ended 31 December 2007 (7.5p)	-	-	-	-	(1,821)	(1,821)
Second interim dividend for the period ended 31 December 2007 (7.5p)	-	-	-	-	(2,519)	(2,519)
<b>31 December 2007</b>	<b>16,794</b>	<b>48,009</b>	<b>1,618</b>	<b>1,427</b>	<b>56,229</b>	<b>124,077</b>

\* Deferred tax was released in the period to 31 December 2006 due to the impending conversion to UK-REIT.

# Notes to the financial statements

## 1. Accounting policies

### **Basis of preparation/Statement of compliance**

The half year report for the six months ended 30 June 2008 has been prepared in accordance with IAS 34 'Interim Financial Reporting' and International Financial Reporting Standards as adopted by the European Union and reflected in the accounting policies set out in the Group's financial statements as at 31 December 2007.

The half year report does not include all the information and disclosures required in the statutory financial statements and should be read in conjunction with the Group's financial statements as at 31 December 2007.

The financial information contained in this report does not constitute statutory accounts within the meaning of section 240 Companies Act 1985. The auditors' report on the full financial statements under section 235 Companies Act 1985, for the eighteen month period ended 31 December 2007 did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This audit report, which was unqualified, was delivered to the Registrar of Companies together with the financial statements for the eighteen month period ended 31 December 2007.

### **Convention**

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

### **Segmental reporting**

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

### **Conversion to UK-REIT**

The Group's conversion to UK-REIT status was effective from 1 January 2007.

Conversion to a UK-REIT results in, subject to continuing relevant UK-REIT criteria being met, the Group's property profits, both income and gains, being exempt from UK taxation from 1 January 2007.

## Notes to the financial statements continued

On conversion to a UK-REIT, the Group was subject to a one-off taxation charge based on the value of the properties as at the date of conversion, amounting to £5.2m. This amount is payable over four years.

### 2. Acquisition of SPCD (Shavington) Limited and SPCD (Northwich) Limited

On 4 January 2008, the Group acquired 100% of the ordinary share capital of the above two companies for a cash consideration of £7.9m. SPCD (Shavington) owns Rope Green Medical Centre, Shavington and SPCD (Northwich) owns Firdale Medical Centre, Northwich.

The net assets acquired amounted to £7.9m and consisted of properties. There were no fair value adjustments and the post acquisition profits generated by the companies are not material to the interim financial statements. The annual rent roll from the two properties is £443k.

### 3. Investment and development properties

The freehold, leasehold and development properties have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2008.

The revaluation loss for the six months ended 30 June 2008 amounted to £4.7m. The revaluation gain for the eighteen months ended 31 December 2007 amounted to £4.9m and that for the six months ended 30 June 2007 amounted to £5.0m.

Property additions (including capitalised costs of £500k) relating to contracts for the six months ended 30 June 2008 amounted to £42.3m. There were no properties disposed of in the six months to 30 June 2008.

Property additions for the eighteen months ended 31 December 2007 amounted to £76.7m. Properties disposed of in the eighteen months ended 31 December 2007, valued at £0.4m as at 30 June 2006, realised a gain of £0.04m.

Property additions for the six months ended 30 June 2007 amounted to £16.5m. There were no property disposals during this period. Commitments at 30 June 2008 amounted to £26.9m (31 December 2007: £35.7m).

### 4. Impairment loss and exceptional items

The impairment loss of £3.75m which was recognised in the Income Statement for the

period ended 31 December 2007 reflects the difference between the estimated market value of properties in the course of development at the period-end and their contracted development cost. The impairment was recognised as a provision against the capitalised cost of property.

Goodwill, representing costs of £90k, arose in respect of the acquisition of SPCD Northwich and SPCD Shavington on the 4 January 2008. The goodwill has been written off in full to the Income Statement during the period (30 June 2007: £126k; 31 December 2007: £5.6m arising on the acquisition of Cathedral Healthcare Holdings Limited).

## 5. Earnings per share

The purpose of calculating an adjusted earnings per share is to provide a better indication of dividend cover for the period by excluding capital items, including valuation gains.

Following the exercise of the Management Options by the Joint Managers on 21 September 2006, there is no dilution and therefore no difference between the adjusted basic and diluted net values as at 30 June 2007, 31 December 2007 and 30 June 2008. The calculation of basic and adjusted earnings per share as at 30 June 2008 is based on the following:

	<b>Net profit attributable to Ordinary Shareholders £000</b>	<b>Number of Ordinary Shares*</b>	<b>Pence per share</b>
<b>Loss per share for the six months ended 30 June 2008</b>			
Basic loss per share	(695)	33,587,094	(2.1)
<b>Adjusted loss per share for the six months ended 30 June 2008</b>			
Basic loss per share	(695)	33,587,094	(2.1)
Adjustments to remove:			
Goodwill impairment	90		
REIT Conversion charge	160		
Net valuation losses on valuation of property	4,724		
Fair value gain on derivatives**	(1,608)		
Adjusted basic earnings per share	2,671	33,587,094	8.0

## Notes to the financial statements continued

	Net profit attributable to Ordinary Shareholders £000	Number of Ordinary Shares*	Pence per share
<b>Earnings per share for the six months ended 30 June 2007</b>			
Basic earnings per share	5,239	27,673,730	18.9
<b>Adjusted earnings per share for the six months ended 30 June 2007</b>			
Basic earnings per share	5,239	27,673,730	18.9
Adjustments to remove:			
Management incentive fee	1,839		
Goodwill impairment	126		
Net valuation gains on valuation of property	(5,055)		
Fair value gain on derivatives**	-		
Adjusted basic earnings per share	2,149	27,673,730	7.8
<b>Earnings per share for the eighteen months ended 31 December 2007</b>			
Basic earnings per share	16,801	28,297,852	59.4
<b>Adjusted earnings per share for the eighteen months ended 31 December 2007</b>			
Basic earnings per share	16,801	28,297,852	59.4
Adjustments to remove:			
Management incentive fee	2,591		
Goodwill impairment	5,551		
UK-REIT conversion charge	5,157		
Deferred tax charge	3,880		
Deferred tax release	(29,622)		
Net valuation gains	(4,857)		
Fair value loss on derivatives**	2,808		
Adjusted basic earnings per share	2,309	28,297,852	8.2

\* Weighted average number of Ordinary Shares in issue during the period.

\*\* In view of the continuing volatility in the mark to market adjustment in respect of the period end valuation of derivatives that flows through the Income Statement, the Directors now believe that it is appropriate to remove the gain or loss in the calculation of adjusted results and the comparatives have been restated accordingly.

**6. Trade and other receivables**

	<b>30 Jun 2008</b> <b>£000</b> <b>(unaudited)</b>	<b>31 Dec 2007</b> <b>£000</b> <b>(audited)</b>
Development property interest	676	540
Property lease extensions	379	379
Other debtors	96	203
Rents receivable	637	663
Rent increase accrued income	836	613
Prepayments	449	468
Recoverable VAT	1,280	1,320
	<hr/> 4,353	<hr/> 4,186

**7. Management incentive scheme**

The management incentive fee is calculated on an annual basis, using the audited financial statements.

No management incentive fee is payable for the period ended 30 June 2008. Included in Administration Expenses within the Income Statement for the six months to 30 June 2007 is a management incentive fee expense of £1.8m (eighteen months to 31 December 2007: £2.6m). No fee was payable for the six months ended 31 December 2007.

## Notes to the financial statements continued

## 8. Dividends paid

	Number of shares dividend paid upon (unaudited)	Six months ended 30 Jun 2008 £000 (unaudited)	Six months ended 30 Jun 2007 £000 (unaudited)	Eighteen months ended 31 Dec 2007 £000 (audited)
Third interim dividend for the period ended 31 December 2007 (8.25p) paid 28 March 2008	33,587,094	<b>2,771</b>	-	-
Second interim dividend for the period ended 31 December 2007 (7.5p) paid 23 November 2007	33,587,094	-	-	2,519
First interim dividend for the period ended 31 December 2007 (7.5p) paid 22 May 2007	24,277,718	-	1,821	1,821
Final dividend for the year ended 30 June 2006 (6.75p) paid 22 November 2006	24,277,718	-	-	1,639
		<b>2,771</b>	1,821	5,979

The Board proposes to pay an interim dividend of 8.25p per Ordinary Share for the six months to 30 June 2008, payable on 20 November 2008, amounting to £2.7m.

## 9. Taxation

	<b>Six months ended 30 Jun 2008 £000</b> (unaudited)	<b>Six months ended 30 Jun 2007 £000</b> (unaudited)	<b>Eighteen months ended 31 Dec 2007 £000</b> (audited)
<b>Taxation in the Income Statement:</b>			
<b>Current tax</b>			
UK Corporation tax on non property income	<b>28</b>	30	27
Adjustments in respect of prior period	-	73	73
	<b>28</b>	103	100
Conversion to UK-REIT charge	<b>160*</b>	-	5,157
	<b>188</b>	103	5,257
<b>Deferred tax</b>			
Deferred tax charge for the period	-	-	3,880
Deferred tax release on conversion to UK-REIT (note 1)	-	-	(29,622)
	-	-	(25,742)
Taxation expense/(credit) in the Income Statement	<b>188</b>	103	(20,485)

\* Conversion to a UK-REIT means that the Group is no longer subject to UK Corporation tax. This enabled the Group to release deferred tax liabilities in respect of the property acquisitions made in the period at the expense of incurring a conversion charge of £160k (31 December 2007: £5.1m).

## Notes to the financial statements continued

**10. Net asset value calculations**

There is no difference between the normal and adjusted net asset values as at 30 June 2007, 31 December 2007 and 30 June 2008, due to the release of all deferred tax liabilities on conversion to UK-REIT status.

Following the exercise of the Management Options by the Joint Managers on 21 September 2006, there is no dilution and therefore no difference between adjusted basic and diluted net asset values as at 30 June 2007, 31 December 2007 and 30 June 2008.

Net asset values have been calculated as follows:

	<b>30 Jun 2008 £000</b> (unaudited)	<b>30 Jun 2007 £000</b> (unaudited)	<b>31 Dec 2007 £000</b> (audited)
Net assets per Group Balance Sheet	<b>125,429</b>	151,068	124,077
	<b>Number of shares</b>	<b>Number of shares</b>	<b>Number of shares</b>
Ordinary Shares:			
Issued share capital	<b>33,587,094</b>	33,587,094	33,587,094
Net asset value per share	<b>373.4p</b>	449.8p	369.4p

# Shareholder information

## Interim dividend calendar

Ex-dividend date	15 October 2008
Record date	17 October 2008
Last day for election	21 October 2008
Post dividend warrants and tax vouchers	19 November 2008
Payment date	20 November 2008
Post share certificates and statements	by 4 December 2008

## Taxation status

The REIT Regulations in force require that a REIT pays distributions equal to 90% of its exempt rental income (as calculated for tax purposes). Distributions from the Company may comprise Property Income Distributions (PIDs), ordinary cash dividends or a combination of the two.

A PID will be taxed as property letting income for shareholders who pay tax, but this is separate from any other property letting business they may carry on. PIDs are paid out under deduction of tax at the basic rate (currently 22% withholding tax). The Regulations provide that tax is not deducted if the PID is paid to certain classes of shares, in particular UK Companies, charities, local authorities and UK Pension schemes.

In order to pay a PID without withholding tax, the Company has to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose the Company requires shareholders to submit a valid form and Shareholders who wish to apply for a Tax Exemption Form can do so as follows:

**Telephone** 0871 664 0300  
(calls cost 10p per minute plus network charges)

**Email** [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

**Address** Capita Registrars, Shareholder Services Department  
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

HM Revenue & Customs has produced guidance on Real Estate Investment Trusts and this can be found at the following web site address:

## Shareholder information continued

**<http://www.hmrc.gov.uk/cnr/dt-guide-note-9.htm>.**

The above is a general guide only and Shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

### Share service

The Company has made arrangements for a Share Service 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. The URL link accessing the details and forms for the PHP Share Service can be accessed from the Company website or alternatively at **[www.capitaregistrars.com/php](http://www.capitaregistrars.com/php)**.

For details of the plan please contact:

Capita IRG Trustees Limited

PHP Share Service, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

CIRGT Shareholder helpline 0871 664 0300 (calls cost 10p per minute plus network charges)

Capita IRG Trustees Limited is authorised and regulated by the Financial Services Authority.

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".

### 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 0871 664 0300 (calls cost 10p per minute plus network charges), e-mail address: **[ssd@capitaregistrars.com](mailto: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:

	Percentage of trade value	Minimum charge	Maximum charge	Compliance charge
Telephone	1.5%	£22.50	£100.00	£2.50
Internet	1.0%	£17.50	£50.00	£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:

- Online dealing (24 hours): **[www.capitadeal.com](http://www.capitadeal.com)**
- Telephone dealing (8.00am to 4.30pm, Monday to Friday): **0871 664 0300**  
(calls cost 10p per minute plus network charges)

### General information about the Company

General information about the Company can be seen on the Primary Health Properties PLC web site at **[www.phpgroup.co.uk](http://www.phpgroup.co.uk)**. Alternatively you may contact Harry Hyman or Tim Walker-Arnott on 01483 749 020.

## Shareholder information continued

### American Depository Receipts (“ADR”) programme

Primary Health Properties PLC has appointed the Bank of New York as the depository bank for its sponsored level 1 ADR programme.

The ADRs trade on the over-the-counter market under the symbol “PYHPY” and each PHP ADR represents two ordinary shares.

The Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Services Authority and are traded on the London Stock Exchange under the symbol “PHP”.

All enquiries relating to ADRs should be addressed to:

The Bank of New York

Investor Relations, PO Box 11258, Church Street Station, New York 102886-1258 toll free.

Telephone number for domestic callers: 1 888 BNY ADRS

Telephone number for international callers: +1 610 382 7836

Email: [shareowners@bankofny.com](mailto:shareowners@bankofny.com)

### What is an ADR programme?

An ADR is a negotiable U.S. certificate representing US ownership of shares in a Non U.S. company, quoted and traded in US Dollars in the US Securities Market. Any dividends are paid in US Dollars. Further details on The Bank of New York’s web site at: [www.adrbnymellon.com](http://www.adrbnymellon.com)

Registered in England No. 3033634

# Corporate profile

## Directors

G A Elliot (Chairman)

H A Hyman (Managing Director)

A R Jones (Chairman of Audit Committee and Senior Independent Director)

M J Gilbert (W J C Hemmings: alternate)

J D Hambro

Dr I P Rutter OBE

## Joint Managers

### **Nexus PHP Management Limited**

2nd Floor, Griffin House, West Street, Woking GU21 6BS

Tel: 01483 749 020

### **J O Hambro Capital Management Limited**

Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB

Tel: 020 7747 5678

## Registrars

### **Capita Registrars**

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

General enquiries: 0871 664 0300\*

Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

Online dealing: [www.capitadeal.com](http://www.capitadeal.com)

Telephone dealing: 0871 664 0446\*

Share service: [www.capitaregistrars.com/php](http://www.capitaregistrars.com/php)

CIRGT Shareholder helpline: 0871 664 0300\*

\* calls cost 10p per minute plus network charges

## Stockbrokers

### **Numis Securities Limited**

The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT

### **KBC Peel Hunt Ltd**

111 Old Broad Street, London EC2N 1PH

## Corporate profile continued

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### Solicitors

#### **Nabarro LLP**

Lacon House, 84 Theobald's Road, London WC1X 8RW

#### **Todd Murray LLP**

Edinburgh Quay, 133 Fountainbridge, Edinburgh EH3 9AG

### 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

Tel: 020 7747 5678

Facsimile: 020 7747 5611

### Bankers

#### **The Royal Bank of Scotland plc**

280 Bishopsgate, London EC2M 3UR

#### **Allied Irish Banks, p.l.c.**

St Helen's, 1 Undershaft, London EC3A 8AB

#### **Abbey National Treasury Services plc**

2 Triton Square, Regent's Place, London NW1 3AN

### Environmental consultant

#### **ARCADIS AYH plc**

10 Furnival Street, London EC4A 1YH







## Primary Health Properties PLC

For further information contact:  
Harry Hyman or Tim Walker-Arnott at PHP

Telephone: 01483 749 020  
PHP website: [www.phpgroup.co.uk](http://www.phpgroup.co.uk)  
NEXUS website: [www.nexusgroup.co.uk](http://www.nexusgroup.co.uk)