

Primary Health Properties PLC
Interim Report for six months ended 31 December 2001

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 2001	Six months to 31 December 2000	Increase	Year to 30 June 2001
Net assets	£24.1m	£20.4m	18%	£23.9m
Basic net asset value per share	153.2p	130.1p	18%	152.5p
Fully diluted net asset value per share	142.7p	125.2p	14%	142.2p
Portfolio purchased and committed	£75.6m	£62.4m	21%	£72.7m
Annual rent roll	£5.2m	£4.5m	16%	£5.0m
Profit before taxation	£0.94m	£0.72m	31%	£1.6m
Earnings per share – basic	5.4p	4.1p	31%	9.1p
– diluted	5.0p	4.0p	25%	8.7p
Interim dividend, net per share	4.5p	3.75p	20%	N/A

Chairman's Statement

Group profit before tax for the six months to 31 December 2001 totalled £943,000 (2000: £720,000), an increase of 31%.

Profit after taxation was £849,000 (2000: £648,000), an increase of 31%, yielding basic earnings per share of 5.4p (2000: 4.1p), an increase of 31%, and fully diluted earnings per share of 5.0p (2000: 4.0p), an increase of 25%.

The Group undertakes a full valuation of its portfolio at each year-end. The net asset value per share of the Group at 31 December 2001 was 153.2p (basic) (30 June 2001: 152.5p) after providing for the interim dividend of 4.5p declared by the Board (2000: 3.75p). The interim dividend is payable on 30 April 2002 to shareholders on the register at 5 April 2002.

The first half of our financial year has seen the continued development of our portfolio of properties leased to users delivering services to the National Health Service. At the period-end our paid out portfolio had increased to £65.8 million (£63.3 million of investment properties and £2.5 million of finance leases) with an associated rent roll of £5.2 million representing a running yield of some 9.5% on cost. Of the rent roll 70% was receivable from GPs, 16% from NHS Trusts, 6% from Health Authorities and the residual 8% was largely from retail pharmacy operators such as Lloyds Chemists.

During the period we have taken delivery of one completed property in Buckingham Road, Bicester, Oxfordshire, which provides accommodation for a 5 GPs' Practice, the local Primary Care Group and a physiotherapist. The property was acquired for a total cost of £1.58 million and produces £126,450 p.a. giving a yield on cost of approximately 8%.

Although the level of completed property purchases in the first half was only £1.58 million, we also entered into new commitments during the period totalling £3.8 million, representing two new Primary Care centres located at Stretford and Swinton in Greater Manchester. We confidently expect to take delivery of around £8.5 million of completed stock prior to the company's year-end 30 June 2002.

Excluding fixed uplifts we have a further £2.4 million of our rent roll where reviews are currently outstanding. The review work carried out to date has produced some excellent individual uplifts, and rent reviews across the board have all been in excess of the Retail Price Index for the equivalent period. We are now in a position to action all outstanding reviews and continue to increase the existing rent roll, the results of which will increase our rent roll.

During the period medium-term interest rates have decreased considerably with the 5 year swap rate falling to 5.64% (excluding margin) at the date of the report. The Group has continued to review its short-term funding alternatives and has benefited from its strategy to delay hedging arrangements. At the period-end medium-term debt due under our 10 year facility was £36

Chairman's Statement – *continued*

million of which £20 million was hedged at an average cost of 5.706% before margin leaving us £16 million unhedged at a current rate of 4.0625% (LIBOR before a margin of 0.8%). In addition the Group is fully drawn down on its £4 million 7.75% 2016 convertible loan stock.

Our pipeline of individual transactions remains strong. We look forward to reporting further progress in due course.

Accounting policy changes

Financial Reporting Standard (FRS) 19 "Deferred tax" requires that deferred tax should now be provided in full on all timing differences. The FRS does not normally permit deferred tax to be recognised on the revaluation surplus. Our accounting policy was to recognise deferred tax only to the extent that liabilities or assets were expected to crystallise. FRS 19 has no effect on actual tax payments. We have therefore changed our accounting policy to make full provision for timing differences which, in our case, arise primarily from capital allowances. As allowed by FRS 19 the Group has discounted the potential deferred tax liability and considers there to be no material impact on the tax charge for the period. Consequently, there is also no material impact on the prior year and therefore no restatement has been made.

Subsequent events

On 25 January 2002 the Company placed 785,000 Ordinary shares with institutions through Numis Securities Limited at a price of 148p per share, raising £1.2 million before expenses. These funds will be used to further the development of the Group's portfolio. The new shares will be entitled to the interim dividend declared today of 4.5p per Ordinary share and an accrual for this has been made in the interim financials statements. However, in accordance with Financial Reporting Standard 14: Earnings Per Share, because the shares were issued after the end of the period, no adjustment has been made in calculating earnings per share either basic or fully diluted. Please see note 6 for further information.

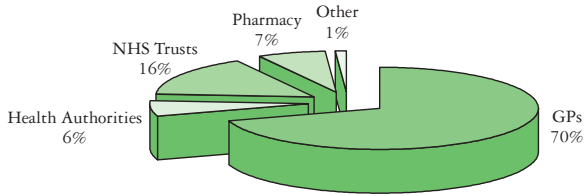
The Company is setting up an equity savings plan with Capita-IRG plc.

G A Elliot

Chairman

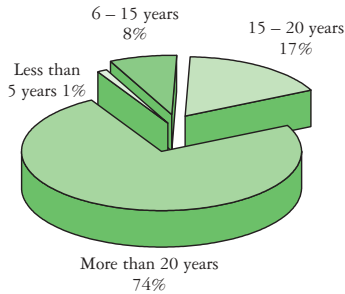
25 March 2002

Covenant Analysis by Annual Rent

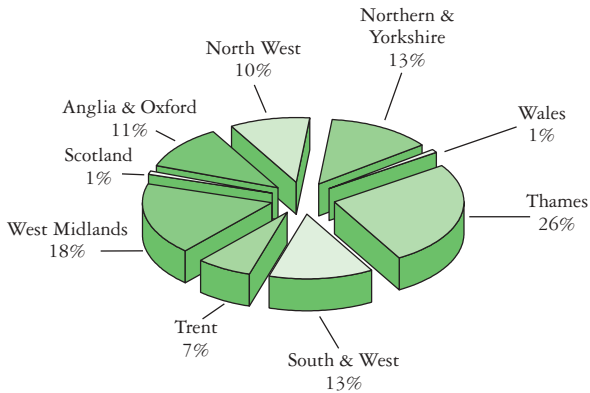


An analysis of the annual rent roll of £5.2 million at 31 December 2001.

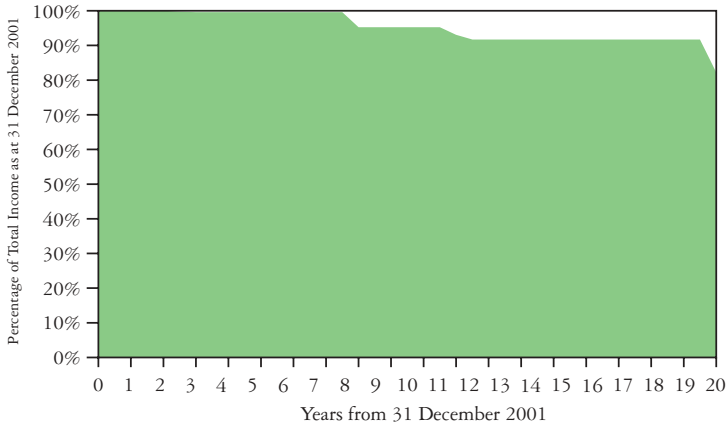
Analysis of Rent Roll by Lease Term Unexpired



Analysis of Rental Income by Geographical Region

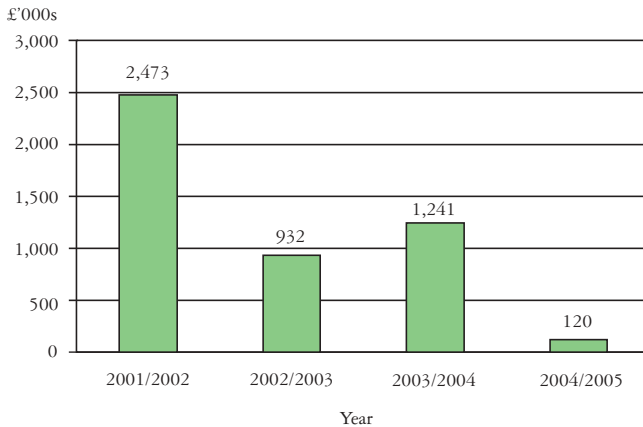


Security of Income by Lease Expiry



We continue to believe that the strength and security of our recurring income stream is extremely attractive and this is shown in the diagram above.

Rent Reviews by Annual Rent



Property Portfolio at 31 December 2001

- Stokewood Surgery, Fair Oak Road, Eastleigh, Hants
- Blackthorn Surgery, Station Road, Netley Abbey, Hants
- Falcon Road Medical Centre, Falcon Road, London SW11
- Rushton Street Medical Centre, Rushton Street, London N1
- Chorleywood Surgery, Lower Road, Chorleywood, Herts
- The Old Fire Station Surgery, Portsmouth Road, Southampton, Hants
- Lever Chambers Centre for Health, Ashburner Street, Bolton, Greater Manchester
- Willesden Medical Centre, Willesden High Road, London NW10
- Corbett Medical Practice, Corbett Avenue, Droitwich, Worcs
- Astonia House, High Street, Baldock, Herts
- Llandaff North Medical Centre, Station Road, Llandaff, Cardiff
- Maypole Health Centre, Sladepool Farm Road, Birmingham, B14
- Bearwood, Birmingham, W.Midlands, B17
- Trinity Medical Centre, Thornhill Street, Wakefield, West Yorkshire
- James Pringle House, Charlotte Street, London, W1
- Withernsea Community Hospital, Withernsea, Hull, East Yorkshire
- Hereward Group Practice, Exeter Street, Bourne, Lincs
- Woolston Lodge & Canute Surgeries, Woolston, Hants
- Montgomery House Surgery, Piggy Lane, Bicester, Oxon
- Toddington Medical Centre, Luton Road, Toddington, Beds
- Milton Medical Centre, Station Road, New Milton, Hants
- St John's Medical Centre, High Street, Walsall Wood, West Midlands
- The Surgery, Carswell Wynd, Auchtermuchty, Fife
- Poplar Grove Practice, Meadow Way, Aylesbury, Bucks
- West Timperley Medical Centre, Dawson Road, West Timperley, Cheshire
- Larksfield Surgery, Arlesey Road, Stotfold, Beds
- Eaton Wood Medical Centre, Tyburn Road, Birmingham, B24
- Tibshelf Medical Centre, Tibshelf, Derbyshire
- Killick Street Health Centre, Islington, London, N1
- Ritchie Street Health Centre, Islington, London, N1
- Hucknell Road Medical Centre, Nottingham
- Cornerways Medical Centre, Ringwood, Hants
- Washway Road Medical Centre, Sale, Cheshire
- North Bicester Surgery, Bicester, Oxon
- Smethwick Medical Centre, Smethwick, W Midlands
- South Cave Medical Centre, South Cave, E. Yorks

Property Portfolio at 31 December 2001 – *continued*

- Willenhall Medical Centre, Croft Street, Willenhall, W. Midlands
- Victoria House Surgery, Buckingham Road, Bicester, Oxon

- Penarth, South Glamorgan (*under construction*)
- Arthurstone Terrace, Dundee (*under construction*)
- Faringdon, Oxon (*under construction*)
- Newbury, Berks (*under construction*)
- Coppice Farm, Walsall, W. Midlands (*under construction*)
- Derbyshire Lane, Stretford, Greater Manchester (*under construction*)
- Partington Lane, Swinton, Greater Manchester (*under construction*)

Consolidated Profit and Loss Account for the six months ended 31 December 2001

		Six months ended 31 December 2001 £'000 (unaudited)	Twelve months ended 30 June 2001 £'000 (audited)	Six months ended 31 December 2000 £'000 (unaudited)
	Note			
Turnover		2,665	4,626	2,208
Administrative expenses		(549)	(972)	(478)
Operating profit		2,116	3,654	1,730
Interest receivable		61	115	69
Interest payable		(1,234)	(2,187)	(1,079)
Profit on ordinary activities before tax		943	1,582	720
Taxation		(94)	(158)	(72)
Profit on ordinary activities after tax		849	1,424	648
Dividend				
Interim dividend of 4.5p per share (2001: 8.0p interim and final 2000: 3.75p)	6	(742)	(1,256)	(589)
Retained profit for the period		<u>107</u>	<u>168</u>	<u>59</u>
Earnings per share – basic	4	5.4p	9.1p	4.1p
– diluted	4	5.0p	8.7p	4.0p

There were no recognised gains and losses other than those passing through the profit and loss account. All activities are continuing.

Consolidated Balance Sheet
at 31 December 2001

	Note	At 31 December 2001 £'000 (unaudited)	At 30 June 2001 £'000 (audited)	At 31 December 2000 £'000 (unaudited)
Fixed assets				
Tangible assets	2	<u>63,598</u>	<u>61,059</u>	<u>51,923</u>
Current assets				
Debtors		381	539	316
Net investment in finance leases: amounts falling due in more than 1 year		2,484	2,490	2,492
Cash at bank and in hand		<u>1,612</u>	<u>338</u>	<u>958</u>
		<u>4,477</u>	<u>3,367</u>	<u>3,766</u>
Creditors amounts falling due within one year:		<u>(4,022)</u>	<u>(3,105)</u>	<u>(3,467)</u>
Net current assets		<u>455</u>	<u>262</u>	<u>299</u>
Total assets less current liabilities		<u>64,053</u>	<u>61,321</u>	<u>52,222</u>
Creditors amounts falling due after more than one year:				
Convertible loan stock 2016		(4,000)	(4,000)	(4,000)
Term loan		<u>(36,000)</u>	<u>(33,375)</u>	<u>(27,800)</u>
		<u>(40,000)</u>	<u>(37,375)</u>	<u>(31,800)</u>
		<u>24,053</u>	<u>23,946</u>	<u>20,422</u>
Share capital and reserves				
Called up share capital		7,850	7,850	7,850
Share premium account		5,810	5,810	5,810
Capital reserve		1,618	1,618	1,618
Revaluation reserve		8,287	8,287	4,872
Profit and loss account		<u>488</u>	<u>381</u>	<u>272</u>
Equity shareholders' funds		<u>24,053</u>	<u>23,946</u>	<u>20,422</u>
Net asset value – basic	5	153.20p	152.52p	130.08p
– fully diluted	5	142.71p	142.20p	125.24p

Consolidated Cash Flow Statement
for the six months ended 31 December 2001

	Six months ended 31 December 2001 £'000 (unaudited)	Year ended 30 June 2001 £'000 (audited)	Six months ended 31 December 2000 £'000 (unaudited)
Net cash inflow from operating activities	<u>2,384</u>	<u>3,828</u>	<u>1,968</u>
Returns on investments and servicing of finance			
Interest received	9	43	39
Interest paid	<u>(1,216)</u>	<u>(1,845)</u>	<u>(743)</u>
Net cash outflow from return on investments and servicing of finance	<u>(1,207)</u>	<u>(1,802)</u>	<u>(704)</u>
Taxation			
UK corporation tax paid	<u>–</u>	<u>(9)</u>	<u>(7)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	<u>(1,861)</u>	<u>(8,789)</u>	<u>(2,423)</u>
Equity dividends paid	<u>(667)</u>	<u>(1,154)</u>	<u>(565)</u>
Net cash outflow before financing	<u>(1,351)</u>	<u>(7,926)</u>	<u>(1,731)</u>
Financing			
Term bank loan 2008	<u>2,625</u>	<u>7,875</u>	<u>2,300</u>
Increase/(decrease) in cash	<u><u>1,274</u></u>	<u><u>(51)</u></u>	<u><u>569</u></u>

Reconciliation of net cash flow to movement in net debt

	Six months ended 31 December 2001 £'000 (unaudited)	Year ended 30 June 2001 £'000 (audited)	Six months ended 31 December 2000 £'000 (unaudited)
Increase/(decrease) in cash in the period	1,274	(51)	569
Cash inflow from loans	<u>(2,625)</u>	<u>(7,875)</u>	<u>(2,300)</u>
Movement in net debt in the period	(1,351)	(7,926)	(1,731)
At the beginning of the period	<u>(37,037)</u>	<u>(29,111)</u>	<u>(29,111)</u>
At the end of the period	<u><u>(38,388)</u></u>	<u><u>(37,037)</u></u>	<u><u>(30,842)</u></u>

Reconciliation of operating profit to net cash inflow from operating activities

	Six months ended 31 December 2001 £'000 (unaudited)	Year ended 30 June 2001 £'000 (audited)	Six months ended 31 December 2000 £'000 (unaudited)
Operating profit	2,116	3,654	1,730
Decrease in operating debtors and prepayments	158	28	253
Increase/(decrease) in operating creditors and accruals	<u>110</u>	<u>146</u>	<u>(15)</u>
Net cash inflow from operating activities	<u><u>2,384</u></u>	<u><u>3,828</u></u>	<u><u>1,968</u></u>

Notes to the Interim Financial Statements

1. The interim financial information has been prepared on the basis of the accounting policies set out in the Group's 2001 Statutory Accounts except that in this Interim Report, the Group has adopted FRS 19 "Deferred Tax". Financial Reporting Standard (FRS) 19 "Deferred tax" requires that deferred tax should now be provided in full on all timing differences where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. The FRS does not normally permit deferred tax to be recognised on the revaluation surplus. Our accounting policy was to recognise deferred tax only to the extent that liabilities or assets were expected to crystallise. FRS 19 has no effect on actual tax payments. We have therefore changed our accounting policy to make full provision for timing differences which, in our case, arise primarily from capital allowances. As allowed by FRS 19 the Group has discounted the potential deferred tax liability and considers there to be no material impact on the tax charge for the period. Consequently, there is also no material impact on the prior year and therefore no restatement has been made. The taxation charge is calculated by applying the Directors' best estimate of the annual tax rate to the profits for the period, together with refinements of estimations for prior years.

The Group has adopted the provisions of FRS 19 taking into account the cashflow impact of originating and reversing timing differences (discounted basis). This has had no impact on either the current or previous years tax charges.

2. The freehold properties are included at valuation as at 30 June 2001 plus additions at cost since that date. Tangible fixed assets consist of:

	31 December 2001 £'000 (unaudited)	30 June 2001 £'000 (audited)	31 December 2000 £'000 (unaudited)
Investment properties	63,343	61,028	51,903
Development loans	255	31	20
	<u>63,598</u>	<u>61,059</u>	<u>51,923</u>

3. On 25 January 2002, the Company issued 785,000 Ordinary shares, by way of a placing at 148p. These Ordinary shares are entitled to receive the Interim dividend of 4.5p per Ordinary share declared in respect of the six months to 31 December 2001. Accordingly, a provision has been made in the Interim financial statements in respect of the 16,485,000 Ordinary shares in issue. The earnings per share and net asset value calculations are based on the issued share capital of 15,700,000 Ordinary shares in issue as at 31 December 2001. In the earnings per share and net

Notes to the Interim Financial Statements – *continued*

asset value calculations the 785,000 Ordinary shares issued by way of placing have not been included in accordance with Financial Reporting Standard 14 “Earnings per Share”.

4. The calculation of basic earnings per share is based on earnings of £849,000 (30 June 2001: £1,424,000; 31 December 2000: £648,000) and 15,700,000 Ordinary shares (30 June 2001: 15,700,000; 31 December 2000: 15,700,000). Diluted earnings per share is calculated in accordance with Financial Reporting Standard No. 14: Earnings per Share. It is based on earnings of £989,000 (30 June 2001: £1,703,000; 31 December 2000: £788,000) and 19,649,513 Ordinary shares (30 June 2001: 19,574,212; 31 December 2000: 19,463,707) being the weighted average number of Ordinary shares in issue during the period.

<i>Earnings:</i>	<i>Weighted Average Number of Ordinary Shares:</i>	
	£	Number
Profit on ordinary activities after tax	849,000	Issued share capital* 15,700,000
Interest saved on conversion of loan stock (including adjustment for tax)	140,000	Dilutive effect of options 471,252
	<u>989,000</u>	Dilutive effect of convertible loan stock 3,478,261
	<u><u>989,000</u></u>	<u><u>19,649,513</u></u>

* Issued Share Capital as at 31 December 2001 before the placing described in note 3.

The dilutive effect of options

Pursuant to an agreement dated 14 March 1996 between the Company, Nexus Management Services (NMS) and J O Hambro Capital Management Limited (‘JOHCM’), NMS and JOHCM have been granted options to subscribe for a total of 1.6 million shares in the proportion of 960,000 shares to NMS and 640,000 shares to JOHCM at a subscription price of £1 per share. These options are exercisable at any time after publication of the audited accounts of the Company for the financial year ended 30 June in the year immediately preceding the proposed date of exercise provided that, on the basis of those accounts, the net asset value per share (adding back all gross dividends paid on each share) has increased since the date of admission at a rate in excess of the equivalent compound growth rate of 10%, and subject to the Managers remaining advisors at the date of exercise. As at 30 June 2001 these conditions had been met.

Notes to the Interim Financial Statements – *continued***The dilutive effect of Convertible Loan Stock**

The Convertible Loan Stock 2016 was issued in units of £250,000. The loan stock units are redeemable at par on 31 March 2016, unless previously converted at the option of the holder. The loan stock is 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. For the six months ended 31 December 2001 the fair value of the units, if converted, exceeded their par value.

5. Fully diluted net asset value has been calculated as follows:

	31 December 2001 £'000 (unaudited)	30 June 2001 £'000 (audited)	31 December 2000 £'000 (unaudited)
Net assets:			
Per consolidated balance sheet	24,053	23,946	20,422
Add – Loan stock conversion	4,000	4,000	4,000
– Receipts from the subscriptions from options	1,600	1,600	1,600
	<u>29,653</u>	<u>29,546</u>	<u>26,022</u>
Ordinary shares:			
Issued share capital	15,700	15,700	15,700
Add – New shares issued from options granted	1,600	1,600	1,600
– Loan stock conversion into shares	3,478	3,478	3,478
	<u>20,778</u>	<u>20,778</u>	<u>20,778</u>

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

6. The interim dividend of £742,000 has been calculated on the current issued share Ordinary Share capital of 16,485,000 at 4.5p net per share. The current issued Ordinary Share Capital includes 15,700,000 shares in issue as at 31 December 2001 together with the 785,000 shares issued on 25 January 2002, which rank for the dividend accruing for the six months ended 31 December 2001.
7. The financial information herein does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the year ended 30 June 2001 is based on the statutory accounts for that year. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Report of the Auditors to Primary Health Properties PLC

We have been instructed by the company to review the financial information set out on pages 7 to 13 and 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.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. 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 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 2001.

Ernst & Young LLP
Registered Auditor
London
25 March 2002

Corporate Profile

Directors

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

Joint Managers

Nexus Property Management Services 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-IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Joint Stockbrokers

KBC Peel Hunt plc
62 Threadneedle Street
London EC2R 8HP

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
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

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

Registered in England No. 3033634

Notes

PRIMARY HEALTH PROPERTIES PLC

for further information contact:-
Harry Hyman or Adam Dalglish at PHP
01483 306912 or visit the PHP Website
www.nexusgroup.co.uk