

Primary Health Properties PLC
Annual Report for the year ended 30 June 2003

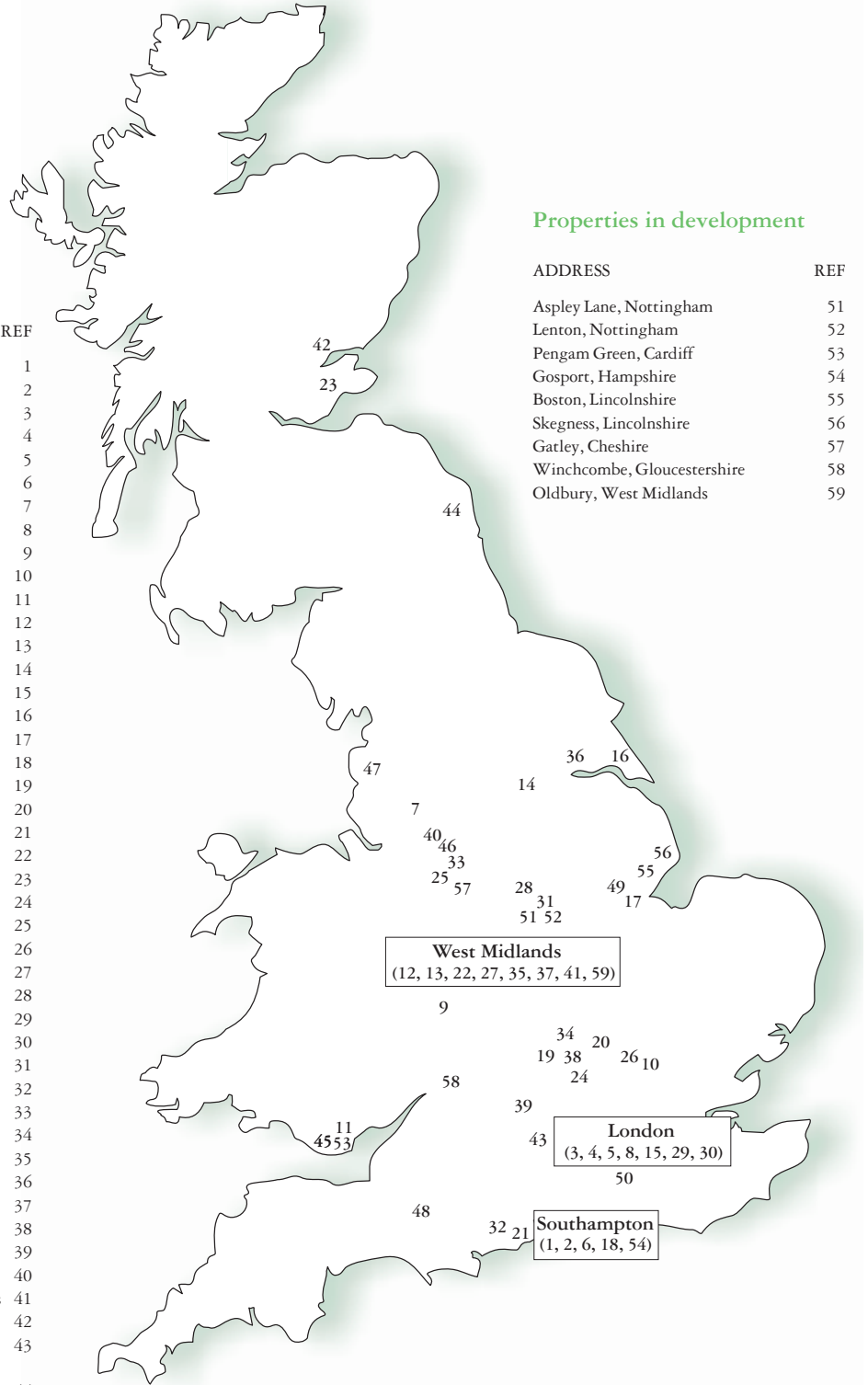
Map showing location of Properties

Properties held as investments

ADDRESS	REF
Stokewood Surgery, Eastleigh, Hants.	1
Blackthorn Surgery, Netley Abbey, Hants.	2
Falcon Road Medical Centre, London SW11	3
Rushton Street Surgery, London N1	4
Chorleywood Health Centre, Chorleywood, Herts.	5
The Old Fire Station Surgery, Woolston, Hants.	6
Lever Chambers, Bolton, Greater Manchester	7
Willerden Health Centre, London NW10	8
Corbett Medical Practice, Droitwich, Worcs.	9
Astonia House, Baldock, Herts.	10
Llandaff North Medical Centre, Cardiff, Sth. Glam.	11
Maypole, Birmingham, West Midlands	12
Bearwood, Birmingham, West Midlands	13
Trinity Medical Centre, Wakefield, Yorks.	14
James Pringle House, London W1	15
Withernsea Community Hospital, Withernsea, E Yorks.	16
Hereward Group Practice, Bourne, Lincs.	17
Woolston Lodge & Canute Surgeries, Woolston, Hants.	18
Montgomery House Surgery, Bicester, Oxon.	19
Toddington Medical Centre, Toddington, Beds.	20
Milton Medical Centre, New Milton, Hants	21
St John's Medical Centre, Walsall Wood, W. Midlands	22
The Surgery, Auchtermuchty, Fife	23
Poplar Grove Practice, Aylesbury, Bucks.	24
West Timperley Medical Centre, Altrincham, Cheshire	25
Larkfield Surgery, Stotfold, Beds.	26
Eaton Wood Medical Centre, Pype Hayes, Birmingham	27
Tibshelf Medical Centre, Tibshelf, Derbyshire	28
Killick Street Health Centre, Islington, London N1	29
Ritchie Street Health Centre, Islington, London N1	30
Hucknell Road Medical Centre, Nottingham	31
Cornerways Medical Centre, Ringwood, Hants.	32
Washway Road Medical Centre, Sale, Cheshire	33
North Bicester Surgery, Bure Park, Bicester, Oxon.	34
Smethwick Medical Centre, Smethwick, W. Midlands	35
South Cave Medical Centre, South Cave, E. Yorks.	36
Willenhall Medical Centre, Willenhall, W. Midlands	37
Victoria House Surgery, Bicester, Oxon.	38
Faringdon Medical Centre, Faringdon, Oxon.	39
Poplars Medical Centre, Swinton, Greater Manchester	40
Coppice Farm Medical Centre, Willenhall, W. Midlands	41
Arthurstone Medical Centre, Dundee, Tayside	42
Falkland Surgery, Newbury, Berks.	43
Scotswood House, Newcastle-upon-Tyne, Northumberland	44
Stanwell Medical Centre, Penarth, South Glamorgan	45
The Delamere Centre, Stretford, Greater Manchester	46
University Medical Centre, Lancaster, Lancs.	47
Ryalls Park Medical Centre, Yeovil, Somerset	48
Harrowby Lane Surgery, Grantham, Lincolnshire	49
Send Surgery, Send, Guildford	50

Properties in development

ADDRESS	REF
Aspley Lane, Nottingham	51
Lenton, Nottingham	52
Pengam Green, Cardiff	53
Gosport, Hampshire	54
Boston, Lincolnshire	55
Skegness, Lincolnshire	56
Gatley, Cheshire	57
Winchcombe, Gloucestershire	58
Oldbury, West Midlands	59



Contents

	<i>Page</i>
Objective of the Group	2
Group Financial Highlights	2
Seven Year Summary of Key Performance Indicators	3
Chairman's Statement	4
Managing Director's Report	5
Directors and Managers	10
Report of the Directors	11
Corporate Governance	16
Directors' Remuneration Report	19
Independent Auditors' Report	21
Consolidated Profit and Loss Account	23
Consolidated Statement of Total Recognised Gains and Losses	24
Consolidated Balance Sheet	25
Company Balance Sheet	26
Consolidated Cash Flow Statement	27
Notes to the Financial Statements	28
Notice of Annual General Meeting	45
Shareholder Information	47
Corporate Profile	48
Form of Proxy	Loose leaf

Objective of the Group

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

Group Financial Highlights

	As at 30 June 2003	As at 30 June 2002
Net assets (£m)	37.9	29.9
Net asset value per share (p) – basic	226.8	181.3
– diluted	200.6	164.6
Increase in net asset value per share (p) – basic	45.5	28.8
– diluted	36.0	22.4
Closing portfolio including development loans and finance leases (£m)	96.3	80.1
Commitments (including deposits paid) (£m)	13.3	3.5
Portfolio purchased and committed (£m)	109.6	83.6
Annualised rent roll (£m)	6.9	6.2
Profit before taxation (£m)	2.2	2.0
Profit after taxation (£m)	2.0	1.8
Earnings per share (p) – basic	11.8	11.3
– diluted	10.8	10.4
Proposed final dividend per share (p)	5.0	4.5
Total dividend per share (p)	10.0	9.0
Total return per share (p) – basic	55.5	37.8
– diluted	46.0	31.4

Seven Year Summary of Key Performance Indicators

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

* Rebased to 100 at 30 June 1997.

† Capital return

Chairman's Statement

This was an excellent year for Primary Health Properties. The Group produced another year of profit growth and its highest ever adjusted diluted net asset value of 200p per share, a rise of 22%. Group profit before taxation for the year ended 30 June 2003 totalled £2,179,000 (2002: £2,015,000) an increase of 8%. The diluted total return per share for the year was 46.0p (2002: 31.4p).

The Board has recommended a final dividend of 5.0p per Ordinary share which with the interim dividend makes a total of 10.0p per share for the year, an increase of 11% over the total dividend of 9.0p per share paid in respect of the previous year.

The year end valuation carried out on behalf of the Board by Lambert Smith Hampton has resulted in a revaluation surplus of some £7.5 million for the year. The net asset value per share has risen from 181.3p to 226.8p on an undiluted basis and from 164.6p to 200.6p on a diluted basis.

The Stamp Duty regulation issued in 2003 removed the ceiling on disadvantaged areas relief for commercial property. Our valuations have benefited from the removal of this cap by £1.4 million. This is however a real bonus only if we choose to sell commercial property assets.

Our rent review process during the year has again been successful and at the year end our rent roll was £6.9 million, an increase of 11%.

Purchases of properties during the year amounted to £8.6m and our commitments at the year end totalled £13.3m. Our total portfolio, including commitments, therefore totalled £109.6m at 30 June 2003 an increase from £83.6m at the previous year end. We believe that at this level the portfolio offers possibilities for financing outside those of a conventional full recourse nature and we will be examining these options during the coming 12 months.

As at 30 June 2003 there were 16,716,977 Ordinary shares in issue. In November 2002 the Joint Managers J O Hambro Capital Management Limited exercised options over 213,333 Ordinary shares, and in May 2003 18,644 Ordinary shares were issued to those Shareholders who elected to take shares instead of the cash dividend at a price of 175.1p per Ordinary share.

Expansion during the year has in part been financed by the share issues noted above and further drawings on our committed medium term finance facilities. As reported at the interim stage we have negotiated an extension of our bank facilities with The Royal Bank of Scotland. We entered into a new £15 million term loan commitment and now have the option to convert all our term loan facilities of £55 million into longer term finance which would mature in 2022 whilst retaining the flexibility to refinance if we so choose. Total facilities at 30 June 2003 amounted to £65 million including an overdraft facility of £10 million.

During the year we also received approval from shareholders to amend the terms of the existing management options and to approve the grant of new management options, further details of which are set out in Note 14.

We also commenced the new share save plan and we welcome the new Shareholders who are investing in the Company through this scheme. Details of the share save plan are given on page 14.

During the year considerable effort and cost have been expended through our joint venture Primary Health Solutions Ltd (PHS) to participate in the Government's much heralded NHS Local Improvement Finance Trust (LIFT) scheme. Although we were successful in being short listed at Sandwell in the West Midlands, we were not ultimately selected as the preferred bidder. Having taking into account the costs and prospective benefits of the participation in LIFT and the outcome of the Sandwell bid we have decided not to seek any further grants of contracts under LIFT until various issues concerning it have been clarified and processes streamlined. In the meantime the Group's share of the total costs of some £178,000 has been expensed.

Since our withdrawal from LIFT we have seen a marked acceleration in the number of purchases that we have entered into.

We continue to be risk averse and seek to reduce risk by entering into long term leases with excellent counterparties for a geographical spread of our assets, and by hedging more than 50% of the relevant financing risk. At present the investment market remains strong, as do our assets. The Board believes that Shareholders can have every confidence in the Company and that they hold a fine income producing investment.

Managing Director's Report

Portfolio Movements

The table below sets out the development of our portfolio during the year under review. We took delivery of six new developments and entered into a further eight development commitments. At the year end the portfolio, when commitments are included, reached £109.6 million (2002: £83.6 million) as set out below.

	30 June 2003	30 June 2002
	£m	£m
Investment properties	92.3	76.9
Properties in course of development	1.4	0.7
Finance leases	2.6	2.5
Total owned and leased	96.3	80.1
Deposits paid	0.2	–
Committed	13.1	3.5
Total owned, leased and committed	109.6	83.6

Portfolio Purchases During the Year

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

Property	Acquisition Cost	Occupational Tenants
	£m	
Lancaster University, Lancaster	0.7	Doctors Practice
Stretford, Manchester	2.5	Three Doctors Practices, PCT services and Pharmacy
Penarth, Cardiff	1.5	Doctors Practice
Yeovil, Somerset	0.9	Doctors Practice
Grantham, Lincolnshire	1.0	Doctors Practice
Send, Surrey	1.2	Doctors and Pharmacy
	7.8	

Revaluation

As reported in the Chairman's Statement, the annual portfolio valuation has resulted in an increase of some £7.5 million which has been incorporated into the balance sheet, giving a closing property investment valuation (including finance leases) of £96.3m. This increase amounted to an uplift in net asset value per share of 44.8p on an undiluted basis and 34.7p on a diluted basis. The valuation surplus reflects the impact, during the period, of our successful rent reviews and the Government's decision to exempt certain areas for stamp duty purposes (see below). There has also been a further hardening of investment yields during the period.

Stamp Duty Exemption

A proportion of the revaluation increase has arisen through the Government's decision to exempt certain postcode districts from stamp duty. In value terms this has affected around 40% of the portfolio giving rise to an additional £1.4 million in valuation increases above those achieved through normal market forces.

Managing Director's Report (continued)

Portfolio Rental Levels

The average rent across the whole portfolio is just above £150 per square metre (£14 per square foot). The average rent on accommodation let to the NHS (either directly or through the Doctors Rent and Rates Scheme) is approximately £148 per square metre (£13.75 per square foot) and the average pharmacy rent is around £200 per square metre (£18.50 per square foot).

Rent Reviews

The Group completed a number of rent reviews during the year and there are a number of reviews outstanding that we expect to see resolved during the coming year. The results of the reviews completed during the year added some £77,000 to our rent roll. The chart on page 9 shows the timing of reviews across our portfolio. The pace of reviews is now picking up as more evidence is presented through the market and more premises go through the review process.

Primary Health Solutions (PHS)

As mentioned in the Chairman's Statement, our joint venture with Brackley Investments Limited submitted a number of bids for LIFT projects each of which was unsuccessful. Our share of the costs of these bids has been expensed.

Future Accounting Standards

For accounting periods starting after 1 January 2005, all listed companies in the UK have to comply with International Accounting Standards. These standards are different from UK GAAP in a number of areas, including IAS40 with regard to the definition of Investment Properties and IAS12 in connection with Deferred Tax.

The Directors are currently assessing the impact that this will have on the Group. The extent to which the change to IAS will have on UK Company Law is currently the subject of consultation by the DTI. The Directors will address these proposals in due course.

Finance and Interest Rate Hedging

Bank borrowings increased from £40.0 million to £50.2 million during the year. Including the convertible loan stock of £4.0m year end borrowings totalled £54.2 million of which £43.0m has been hedged as follows:

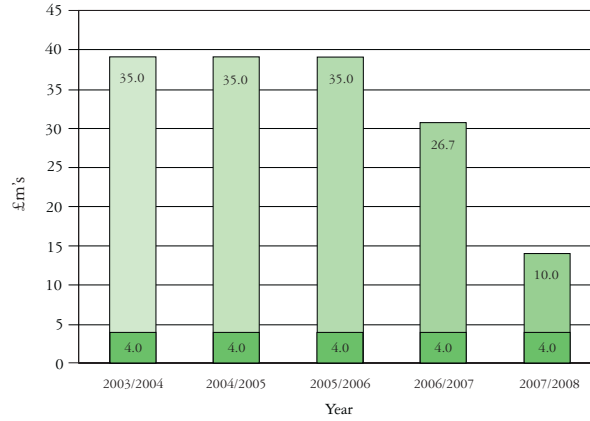
Convertible 2016 fixed rate of 7.75%	£4.0m
Swaps at average rate of 5.35%	£39.0m
	<hr/>
Total fixed rate and hedged debt	£43.0m
	<hr/> <hr/>

The average weighted cost of finance for the fixed element of the debt is 5.60% (2002: 5.98%) (excluding the lender's margin).

During the period a number of swaps have been entered into extending the maturity of the Group's cover under hedging arrangements as shown on the next page.

Managing Director's Report (continued)

Fixed Rate Funding



The bar chart above shows the level of fixed rate financing for each of the next 5 financial years from Swaps and the convertible loan stock.

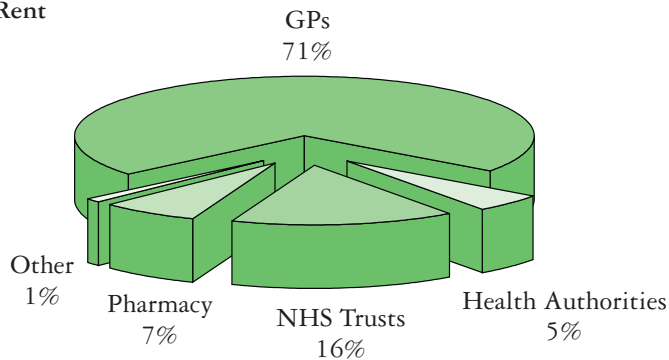
The Group has facilities of £65 million and is discussing the possibility of adding further bank lines. £10 million is on a 364 day facility basis while the balance of £55 million is a 7 year bullet facility repayable in 2008. The Company has negotiated an option to extend its ability to convert all of its term facilities of £55 million into longer term finance that would mature in 2022, whilst retaining the flexibility to refinance if the Company so chooses.

Portfolio Characteristics

Users

The pie chart below shows the percentage of our portfolio by rent roll derived from each of our major tenant classes, GPs, NHS Trusts including PCTs, Health Authorities, pharmacy operators and others. Some 99% (2002: 99%) of our rent roll comes directly or indirectly from the NHS and pharmacy operators. The Board believes that this provides an extremely secure income stream.

Covenant Analysis by Annual Rent

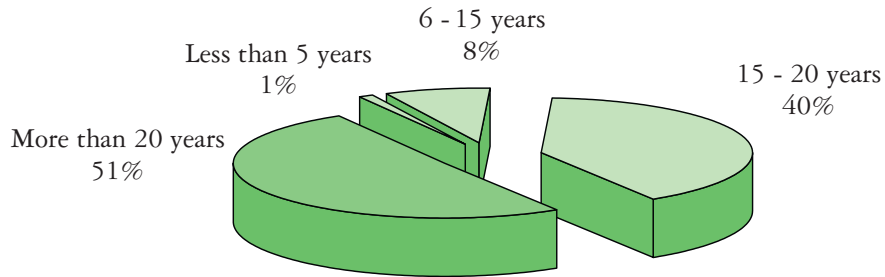


Length of Leases

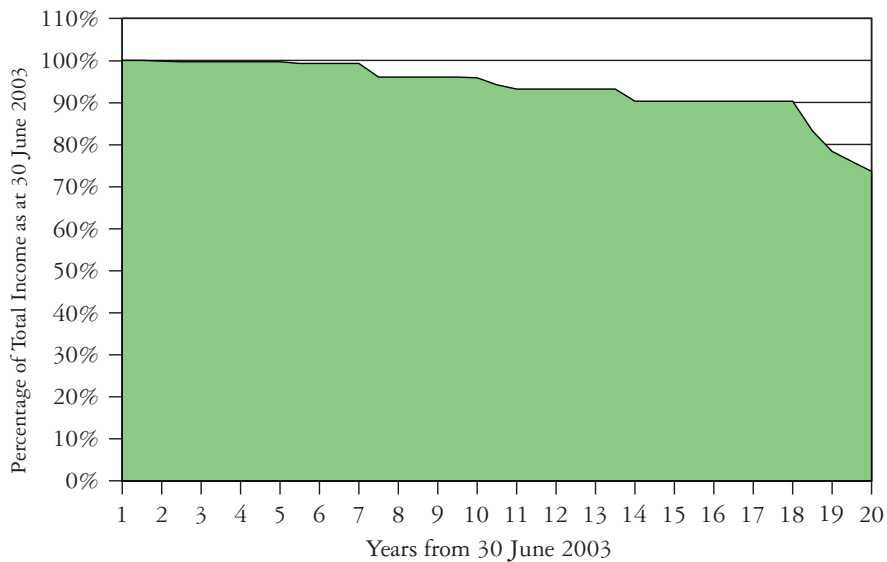
The two diagrams overleaf show the length of lease by lease expiry and percentage of today's passing rent. The pie chart indicates that some 91% (2002: 89.5%) of the lease income has more than 15 years unexpired, whilst the security of the income diagram shows the contracted cash flow as a percentage of the year end rent roll, ignoring any increases and any lease renewals during the subsequent periods. This shows that in 20 years time at worst the Group would still be receiving 74% of its current income while at year 18 the figure is 90%

Managing Director's Report (continued)

Analysis of Annual Rent by Term Unexpired



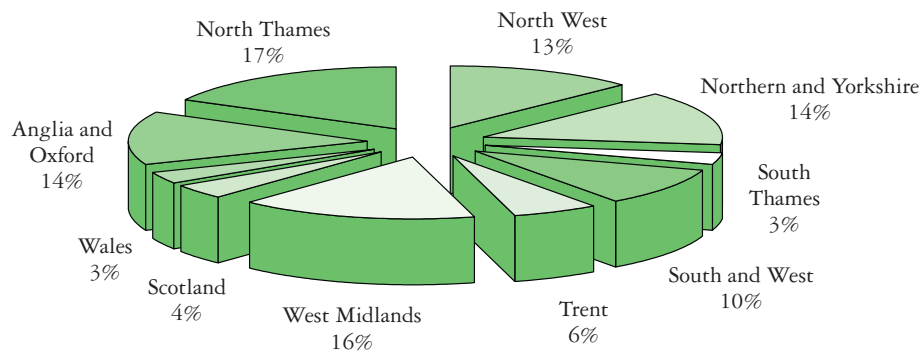
Security of Income by Lease Expiry



Geographical Spread

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

Annual Rent by Region

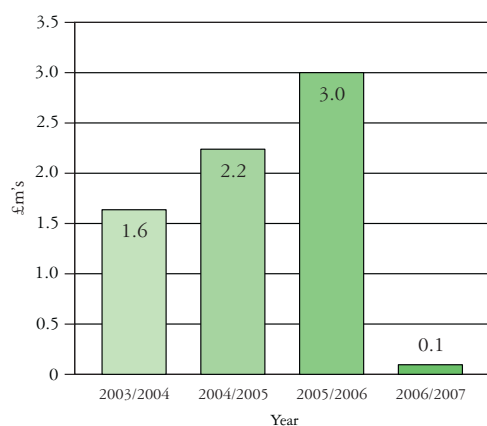


Managing Director's Report (continued)

Forthcoming Rent Reviews

The graph below shows the annual amount of rent falling due for review in each of the next 4 years.

Rent Reviews by Annual Rent



The Primary Care Market

Since publishing its view of modernising the NHS through the NHS Plan in July 2000, the Government has sought to raise the profile of, and the emphasis on, Primary Care in the UK. It suggested that by 2008 there would be 15,000 more GPs and consultants, 30,000 more therapists and scientists, and 35,000 more nurses, midwives and health visitors. In order to accommodate this increase in the workforce, the Government pledged increased funding to provide, amongst other things, the modernisation of 3,000 GP premises.

Several initiatives have been launched by the Government to meet these targets, including NHS LIFT. In recent months we have also seen individual Primary Care Trusts, which are located outside of LIFT areas, looking to work with the private sector investor/developer to improve and redevelop their primary care estates. These are all positive steps to improving the delivery of primary care in the UK. However, the ability to increase the rate of delivery lies in our view not with the private sector, but in the public sector's ability to streamline the process. The private sector has the capability, and the desire, to increase capacity to match whatever is needed to ensure primary care is placed and kept at the forefront of the NHS service delivery programme.

Primary Health Properties PLC intends to maintain its position as a leader in the primary care premises market. We are eager to work in partnership with NHS bodies to meet the aims of the NHS Plan and overcome the difficulties which are slowing the delivery of modern accommodation.

Future Prospects

We are optimistic that the increased resources made available by the Government to the NHS will assist in the modernisation of the Primary Care Estate and that this will result in an increased flow of deals for PHP.

In the meantime our existing portfolio continues to perform well and we are working hard to add value from rent reviews and lease re-gearing.

Harry Hyman
Managing Director

Adam Dalgliesh
Property Director

16 September 2003

Directors and Managers

Directors

Graeme Elliot*, aged 61, Non-Executive Chairman. Appointed February 1996. Mr Elliot was formerly executive vice chairman of Slough Estates PLC prior to which he held senior positions at Rio Tinto PLC. He is a director of a number of public companies.

Harry Hyman, aged 47, Managing Director. Appointed February 1996. Mr Hyman is the founder and Managing Director of Nexus Structured Finance Limited, the holding company for a group of companies engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors with particular emphasis on health and property, of which Nexus Property Management Services Limited is a subsidiary. He is currently a non-executive director of a number of other companies including Intrinsic Value PLC, General Medical Clinics PLC, Pharmacy 2U Limited, Royal London UK Income & Equity Trust PLC and BFS Managed Properties Limited. Mr Hyman is a Director of Primary Health Solutions Limited.

Adam Dalgliesh, aged 30, Property Director. Appointed October 1998. Mr Dalgliesh is a member of the Royal Institution of Chartered Surveyors. He qualified with Lambert Smith Hampton where he was previously employed. He has been responsible for the property management of PHP's portfolio since 1996. Mr Dalgliesh is a Director of Primary Health Solutions Limited.

Martin Gilbert*, aged 48, Non-Executive Director. Appointed May 1996. Mr Gilbert is chief executive of Aberdeen Asset Management PLC, whose wholly-owned subsidiary Aberdeen Asset Managers Limited holds 11.68% of the issued share capital of Primary Health Properties PLC, and chairman of the group's operating subsidiaries. He is chairman of FirstGroup PLC and a director of a number of investment trusts and of Lombard International Insurance SA.

William Hemmings, aged 38, alternate to Martin Gilbert. Appointed March 2000. Mr Hemmings is a fund manager with Aberdeen Asset Managers Limited. He specialises in the fields of smaller company and property share investment.

James Hambro, aged 54, Non-Executive Director. Appointed February 1996. Mr Hambro is chairman of J O Hambro Capital Management Group Limited and its subsidiaries including J O Hambro Capital Management Limited, Manager and Company Secretary to North Atlantic Smaller Companies Trust PLC which holds 17.35% of the issued share capital of the Company. He is also chairman of Ashtenne Holdings PLC and a director of Enterprise Capital PLC.

Patrick Pietroni*, aged 60, Non-Executive Director. Appointed February 1996. Professor Pietroni was formerly Post Graduate Dean of General Practice at London University, and a former Director of the Centre for Community Care and Primary Health at the University of Westminster and has written widely on a number of medical topics. Professor Pietroni is a Director of Primary Health Solutions Limited.

Paul Sandford*, aged 36, Non-Executive Director. Appointed March 2001. Mr Sandford is Managing Director and Chairman of High Tor Limited, a privately-held investment company which is operated from Nassau in the Bahamas. High Tor Limited holds 10.62% of the issued share capital of Primary Health Properties PLC.

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

Managers

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

J O Hambro Capital Management Limited ('JOHCM') (a wholly owned subsidiary of J O Hambro Capital Management Group Limited) provides administrative and accounting services to the Company and is Company Secretary. The JOHCM Group and its corporate entities provides investment management services to a number of listed investment trusts, venture capital trusts, open ended investment companies and other funds. JOHCM is regulated by the Financial Services Authority.

Report of the Directors

Results and Dividends

The profit for the financial year ended 30 June 2003 after taxation amounted to £1,953,000 (2002: £1,812,000). The Directors recommend the declaration of a final dividend of 5.0p per share (2002: 4.5p) and accordingly a resolution will be put to the Annual General Meeting on 20 November 2003 to declare a final dividend in respect of the year ended 30 June 2003 payable on 25 November 2003 to Shareholders on the register at the close of business on 26 September 2003.

At the Extraordinary General Meeting held on 21 November 2002, the Directors were granted authority to offer Ordinary shares instead of cash in respect of dividends. A Circular, Form of Election and Notice of Entitlement will be posted to Shareholders on 6 October 2003 offering Shareholders on the Register of Members on 26 September 2003 the opportunity to elect to receive new Ordinary shares instead of cash in respect of the final dividend. The latest date for receipt of the Forms of Election is 3 November 2003.

Principal Activity

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

Review of the Business and Future Activities

The Chairman's Statement on page 4 and the Managing Director's Report on pages 5 to 9 contain a review of the business and an indication of future developments.

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

Treasury Activities and Policies

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

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

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

(i) *Interest Rate Risk*

The Group finances its operations through called up share capital, convertible loan stock, retained profits and bank borrowings. The Group then uses interest rate swaps to manage its exposure to interest rate fluctuations. At the year end 79% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (see note 13 of the financial statements).

(ii) *Liquidity Risk*

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

	<i>Amount</i>	<i>Maturity</i>
Convertible Loan Stock	£4m	2016
Bank borrowings	£55m	2008
Bank borrowings	£10m	364 days

At the year end the convertible loan stock was drawn in full and there was £50,200,000 drawn under the 2008 bank facility.

Report of the Directors (continued)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to have a majority of borrowings maturing in more than twelve months. The Company has negotiated an option to extend its ability to convert all of its 2008 term facilities into longer term finance that would mature in 2022.

(iii) *Borrowings*

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

(iv) *Property Risk*

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

(v) *Gearing*

The maximum gearing currently available to the Group permitted under the Articles of Association is 70% of gross assets. Borrowing for this purpose excludes amounts outstanding under the convertible loan stock.

Substantial Shareholdings

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

	No of Shares	% of Issued Share Capital
North Atlantic Smaller Companies Investment Trust PLC	2,900,000	17.35
Aberdeen Asset Managers Limited	1,952,451	11.68
High Tor Limited	1,775,000	10.62
INVESCO English and International Trust PLC	630,000	3.77
Acorn Income Fund	515,000	3.08

Directors

Details of the Directors in office at 30 June 2003 appear on page 10.

In accordance with the Company's Articles of Association, Messrs Pietroni and Gilbert retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Interests

The interests of the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated) as at 30 June 2003 and 1 July 2002 are set out below:

	2003 Ordinary Shares of 50p	2002 Ordinary Shares of 50p
G A Elliot	5,000	5,000
M J Gilbert	–	–
W J C Hemmings: (alternate to M J Gilbert)	196	–
J D Hambro	10,000	10,000
H A Hyman	31,114	28,905
H A Hyman (non-beneficial)	46,508	24,561
P C Pietroni	–	–
P Sandford	–	–
A D S Dalgliesh	5,000	5,000

Report of the Directors (continued)

Mr Hyman's non-beneficial interest at the date of this report was 51,088 Ordinary shares and his beneficial interest was 31,750 Ordinary shares. At the date of this report Mr Hemmings interest was 275 Ordinary shares.

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

Details of Directors' remuneration are included in the Directors' Remuneration Report on pages 19 and 20.

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

Mr P Sandford is executive chairman of High Tor Limited, which holds 10.62% of the issued share capital of the Company.

Mr M J Gilbert is the Chief Executive of Aberdeen Asset Management PLC and a director of Aberdeen Asset Managers Limited, its wholly owned subsidiary, which holds 11.68% of the issued share capital of the Company.

Management Options

Pursuant to an Option Agreement between the Company, NPMS and JOHCM dated 14 March 1996, NPMS and JOHCM have been granted options to subscribe for a total of 1.6 million Ordinary shares in the Company in the proportion of 960,000 to NPMS and 640,000 to JOHCM, further details of which are set out in note 14 to the financial statements. Messrs Hyman and Hambro are deemed to have an interest in this agreement.

On 28 November 2002, JOHCM exercised its options over 213,333 Ordinary shares of 50 pence each. JOHCM has 426,667 options over Ordinary shares remaining.

At an Extraordinary General Meeting held on 30 May 2003 an ordinary resolution of Shareholders was passed to approve the amending of the existing Management Option Agreement dated 14 March 1996 between the Company, JOHCM and Nexus whereby there is no maximum number of options that can be exercised by either JOHCM or Nexus and the options can be exercised at any time other than during a prohibited period (as defined in the Model Code set out in Appendix to Chapter 16 of the Listing Rules of the UK Listing Authority). The Independent Directors were authorised to make any amendments of a non-material nature.

At the Extraordinary General Meeting a new management option agreement between the Company, JOHCM and Nexus granting options to subscribe at a price equivalent to the average middle market quotation of an Ordinary share of 50 pence each as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the date of the Extraordinary General Meeting being 171 pence per share over 1,120,000 shares to Nexus and over 480,000 to JOHCM (such that the total number of options outstanding at any time will be limited to 1.6 million Ordinary shares of 50 pence each) was approved. The Independent Directors were given the authority to make amendments of a non-material nature.

The new management options are exercisable at any time following three years but not later than ten years from the date of grant other than during a Prohibited Period and only if:

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

Report of the Directors (continued)

The new management options have not yet been granted.

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

Creditor Payment Policy

It is the Group policy to settle suppliers' accounts in accordance with their individual terms of business. As at 30 June 2003 the Company had £2,157,000 of trade creditors representing 53 creditor days (2002: £1,277,000 and 56 days).

Share Save Plan

As referred to in the Chairman's Statement on page 4, the Company has a Share Save Plan (the "Plan") allowing investors to purchase the Company's shares. For further details, please see Shareholder Information on page 47. The total number of Ordinary shares held within the Plan is currently 18,011.

Annual General Meeting

The Annual General Meeting of the Company will be held on 20 November 2003 at 2.30pm in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. The Notice of Annual General Meeting is set out on pages 45 and 46. Resolutions 1 to 6 set out in the Notice are concerned with the ordinary business customarily transacted at annual general meetings. This year, for the first time, the Directors' Remuneration Report is produced and will be put to an advisory vote. The report is on pages 19 and 20.

Explanatory Notes for the Special Business at the Annual General Meeting

Resolution 7 – Renewal of Directors' Authority to Allot Shares

The authority given to the Directors at the last Annual General Meeting to allot shares expires at the conclusion of this year's meeting. Resolution 7 will renew the authority to allot shares of the Company on similar terms as in previous years. If Resolution 7 is passed, the Directors will have the authority to allot shares up to the aggregate nominal amount of £2,786,162 representing one third of the current issued share capital. This authority will expire at the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution.

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

Resolution 8 – Renewal of Directors' Authority for the Disapplication of Pre-emption Rights

The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting. Resolution 8 will renew the disapplication of pre-emption rights thereby authorising the Directors to allot equity securities up to a maximum aggregate renewal amount of £417,924 representing 835,848 Ordinary shares of 50p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders.

Report of the Directors (continued)

Resolution 9 – Renewal of Authority to Purchase Company’s Own Shares

The authority for the Company to purchase a maximum of 1,671,697 Ordinary Shares in the market, representing 10% of the issued share capital expires at the forthcoming Annual General Meeting. It was not used during the current year and Resolution 9 on page 46 renews this authority for a further year. The Directors intend to exercise this authority only when, in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the best interests of Shareholders generally. Shares will not be bought at a price of less than 50p each being the nominal value of each share nor more than 5% above the average middle market price of the shares over the preceding five business days nor will they be purchased during periods when the Company would be prohibited from making such purchases. Purchases will be made within guidelines set by the Board and using available reserves. Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly.

Auditors

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

By Order of the Board

J O Hambro Capital Management Limited
Company Secretary

16 September 2003

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

Registered in England No. 3033634

Corporate Governance

Statement of Compliance with the Provisions of the Combined Code

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code (the “Code”). In this statement, the Board has not considered compliance with the new combined code applicable for accounting reference periods commencing on or after 1 November 2003.

Application of the Principles of the Code

The Board considers the matters set out in the Code to be very important and is committed to maintaining its principles. The Board is accountable to the Company’s Shareholders for the governance of the Company’s affairs and this statement describes how the relevant principles have been applied by the Company.

The Board considers that it has complied with the provisions of Section 1 throughout the year ended 30 June 2003 and thereafter as required by Listing Rule 12.43A, except as disclosed below.

Directors

The Board consists of seven directors, five of whom are non-executive and four of whom are independent of the Company’s Managers. Their biographical details are set out on page 10. The four Independent Directors are considered to be Messrs Elliot, Gilbert, Pietroni and Sandford. The Board is a small board and individual members have a wide range of qualities and expertise to bring to any debate. Their biographies demonstrate a breadth of investment, commercial and professional experience.

The Board normally meets four times a year and at other times as necessary and has a schedule of matters reserved to it. Although Directors have no service contracts, letters of appointment are in place for the Independent Non-Executive Directors and for Mr Dalgliesh providing for termination on not less than three months’ written notice. The terms of the Management Agreement, details of which are given on page 13, also provide for the appointment of Mr Hambro and Mr Hyman. In accordance with the Articles of Association new Directors stand for reappointment at the first Annual General Meeting following their appointment and one third of Directors are required to retire by rotation. Your Board has considered the need to appoint a senior independent director but believes that this is not necessary as the majority of the Directors including the Chairman, are independent. New Directors are given an Induction Pack containing detailed information regarding the Company.

Board Committees

The Board has established audit and engagement committees with defined terms of reference and duties. The membership of these committees is set out on page 10. The Board as a whole fulfils the functions of the Nomination and Remuneration Committees.

Audit Committee

The Board is supported by an Audit Committee which comprises all of the independent non-executive directors. The Committee meets representatives of the Managers twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Managers operate. The Company’s Auditors also attend the Committee at its request, at least once a year and comment on their work procedures, the quality and effectiveness of the Company’s accounting procedures and their findings in relation to the Company’s statutory audit. The responsibilities of the Audit Committee include reviews of the effectiveness of the internal control environment, accounting policies, the Auditor’s appointment and remuneration. The Audit Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of any external advisers with relevant expertise as it considers necessary. The Audit Committee is responsible for the review of the annual report and interim report, the nature and scope of the external audit, their findings, the terms of appointment of the auditors and the provision of any non-audit services. It also meets with representatives of the Managers and receives reports on the quality and effectiveness of the accounting records and the management information maintained on behalf of the Company.

Corporate Governance (continued)

Engagement Committee

The Engagement Committee comprising the Independent Non-Executive Directors is responsible for the regular review of the terms of the management contract with the Managers. The committee reviews the terms including fees and other remuneration payable to Nexus Property Management Services Limited and J O Hambro Capital Management Limited set out in note 5 of the financial statements on a regular basis. Details of the options granted to the Managers are set out in note 14 to the financial statements on pages 40 and 41.

Directors' Remuneration

The Board as a whole agree Directors' remuneration and the current fees of £12,500 for Directors and £17,500 for the Chairman were set in April 2002. The remuneration of the Directors is disclosed in the Directors' Remuneration Report on pages 19 and 20.

The directors' fees payable to Messrs Hambro, Hyman and Dalgliesh are paid to JOHCM and Nexus respectively.

Shareholder Relations

The Company, through the Managers, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private Shareholders and encourages them to attend and participate. The Annual General Meeting is attended by the Chairman who is also Chairman of the Audit Committee. The Notice of General Meeting sets out the business of the meeting on pages 45 and 46. The special business is also explained fully in the Explanatory Notes on pages 14 and 15. Separate resolutions are proposed for each substantive issue.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, J O Hambro Capital Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that the applicable regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports.

Independent Professional Advice

There is an agreed procedure for the Board, in the furtherance of their duties, to take independent professional advice at the Company's expense, having first notified the Chairman.

Accountability and Audit

The Board's responsibilities with regard to the financial statements and a statement of Going Concern are set out on page 18. The report of the Independent Auditors is on pages 21 and 22.

Internal Control

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

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

Corporate Governance (continued)

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

Going concern

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

Statement of Directors' Responsibilities

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

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

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

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time for this financial year. An ordinary resolution for the approval of this report will be put to the Members at the forthcoming Annual General Meeting. This is an advisory vote only.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 21 and 22.

Role and composition

The Board as a whole agrees Directors' remuneration. No director participates in discussions on his own remuneration. A Remuneration Committee has not been formed due to the size of the Board.

Directors' remuneration

The fees payable to Directors are agreed by the Board following the recommendation of the Chairman of the Board and with the assistance of independent external advice on comparable organisations and appointments. Directors' fees are determined by the Board subject to the limits set out in the Company's Articles of Association. Directors' fees are currently £12,500 for Directors and £17,500 for the Chairman. These fees have been unchanged since April 2002.

Remuneration of Directors (audited)

	Year ended 30 June 2003	Year ended 30 June 2002
	£	£
G A Elliot (Chairman)	17,500	15,625
H A Hyman (Managing Director)	12,500	10,625
J D Hambro	12,500	10,625
M J Gilbert	12,500	10,625
P C Pietroni	12,500	10,625
P Sandford	12,500	10,625
A D S Dalgliesh	12,500	10,625

The fees in respect of Mr Hambro's services are paid to J O Hambro Capital Management Limited ("JOHCM"). Mr Hambro is an indirect shareholder of JOHCM.

The fees in respect of the services of Messrs Hyman and Dalgliesh are paid to Nexus Property Management Services Limited ("Nexus"). Mr Hyman's family interests are the controlling shareholder of Nexus.

No Director receives any benefits in kind.

Service contracts

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

Directors' Remuneration Report (continued)

Company's performance

The following graph compares over a five year period the total shareholder return on the Company's shares with a hypothetical holding of the shares of the same kinds and number as those by reference to which a broad market index is calculated. (source: Financial Data/Datastream).



The equity market index chosen is the Investment Property Databank Index ("IPD") which is an index established 18 years ago and is the IPD flagship index in terms of the number of properties and length of historic coverage. At the end of 2002, the 232 portfolios and 11,400 properties covered by the Annual Index were valued at £102 billion, equivalent to 75% of the total property assets of UK institutions and listed property companies. The full index tracks the three market sectors since 1971. The index is the index used for performance.

The highest and lowest mid-market price of the Company's Ordinary shares was 186.5p and 151.5p respectively.

This report was approved by the Board on 16 September 2003 and signed by G A Elliot, Chairman.

Independent Auditors' Report

to the members of Primary Health Properties PLC

We have audited the Group's financial statements for the year ended 30 June 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

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

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

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

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

Basis of Audit Opinion

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

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

Independent Auditors' Report

to the members of Primary Health Properties PLC

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor, London

16 September 2003

Consolidated Profit and Loss Account

for the year ended 30 June 2003

	<i>Notes</i>	30 June 2003 £'000	30 June 2002 £'000
Turnover	2	6,711	5,550
Administrative expenses	5	(1,399)	(1,124)
Operating profit		5,312	4,426
Share of operating loss in joint venture		(178)	(3)
		5,134	4,423
Interest receivable	4	55	102
Interest payable	3	(3,010)	(2,510)
Profit on ordinary activities before taxation		2,179	2,015
Taxation	6	(226)	(203)
Profit on ordinary activities after taxation		1,953	1,812
Interim dividend of 5.0p per share (2002: 4.50p)		(835)	(742)
Final dividend proposed of 5.0p (2002: 4.50p)		(836)	(742)
		(1,671)	(1,484)
Profit retained for the year		282	328
Net profit after tax and dividends for the year retained by:			
The Company		450	286
Subsidiary undertakings (after declaring dividends of £6,340,000 (2002: £5,215,000))		10	45
Joint venture		(178)	(3)
		282	328
Earnings per share – basic	7	11.8p	11.3p
– diluted	7	10.8p	10.4p
Dividends per share (net)		10.0p	9.0p
Increase in net asset value per share – basic	20	45.5p	28.8p
– diluted	20	36.0p	22.4p
Total return per share – basic	21	55.5p	37.8p
– diluted	21	46.0p	31.4p

All activities are continuing.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 June 2003

	30 June 2003 £'000	30 June 2002 £'000
Profit for the financial year excluding share of loss in joint venture	2,131	1,815
Share of joint venture's loss for the year	(178)	(3)
Profit for the financial year attributable to members of the Parent Company	<u>1,953</u>	<u>1,812</u>
Unrealised surplus on revaluation of properties	<u>7,497</u>	<u>4,469</u>
Total gains and losses relating to the year	<u><u>9,450</u></u>	<u><u>6,281</u></u>

All activities are continuing.

Consolidated Balance Sheet

as at 30 June 2003

	<i>Notes</i>	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	8	93,710	77,653
Investment in joint venture:			
Share of gross assets		75	50
Share of gross liabilities		(106)	(3)
		<u>(31)</u>	<u>47</u>
		93,679	77,700
Current assets			
Debtors	10	658	2,998
Net investment in finance leases (amount falling due within one year: 2003: £28,000; 2002: £23,000)		2,573	2,568
Cash at bank		418	361
		<u>3,649</u>	<u>5,927</u>
Creditors: amounts falling due within one year	11	<u>(5,219)</u>	<u>(9,738)</u>
Net current liabilities		<u>(1,570)</u>	<u>(3,811)</u>
Total assets less current liabilities		92,109	73,889
Creditors: amounts falling due after more than one year			
Bank loans	12	(50,200)	(40,000)
Convertible loan stock 2016	12	(4,000)	(4,000)
		<u>(54,200)</u>	<u>(44,000)</u>
		<u>37,909</u>	<u>29,889</u>
Capital and reserves			
Called up share capital	14	8,358	8,243
Share premium account	15	6,689	6,563
Capital reserve	16	1,618	1,618
Revaluation reserve	17	20,253	12,756
Profit and loss account	18	991	709
		<u>37,909</u>	<u>29,889</u>
Equity Shareholders' funds	19	<u>37,909</u>	<u>29,889</u>
Net asset value per share – basic	20	226.77p	181.31p
– diluted	20	200.61p	164.58p

These financial statements were approved by the Board of Directors on 16 September 2003 and signed on its behalf by:

G A Elliot, Chairman

Company Balance Sheet

as at 30 June 2003

	<i>Notes</i>	2003 £'000	2002 £'000
Fixed assets			
Investment in subsidiaries	9	73,722	65,432
Investments:			
Development loans	8	11	15
Investment in joint venture	9	50	50
		<u>73,783</u>	<u>65,497</u>
Current assets			
Debtors	10	145	618
Cash at bank		13	31
		<u>158</u>	<u>649</u>
Creditors: amounts falling due within one year	11	<u>(2,274)</u>	<u>(5,270)</u>
Net current liabilities		<u>(2,116)</u>	<u>(4,621)</u>
Total assets less current liabilities		71,667	60,876
Creditors: amounts falling due after more than one year			
Bank loans	12	(50,200)	(40,000)
Convertible loan stock 2016	12	(4,000)	(4,000)
		<u>(54,200)</u>	<u>(44,000)</u>
		<u>17,467</u>	<u>16,876</u>
Capital and reserves			
Called up share capital	14	8,358	8,243
Share premium account	15	6,689	6,563
Capital reserve	16	1,618	1,618
Profit and loss account	18	802	452
Equity Shareholders' funds	19	<u>17,467</u>	<u>16,876</u>

These financial statements were approved by the Board of Directors on 16 September 2003 and signed on its behalf by:

G A Elliot
Chairman

Consolidated Cash Flow Statement

for the year ended 30 June 2003

	<i>Notes</i>	30 June 2003 £'000	30 June 2002 £'000
Net cash inflow from operating activities	22	5,916	4,445
Returns on investments and servicing of finance			
Interest received		10	20
Interest paid		(2,351)	(2,453)
		(2,341)	(2,433)
Taxation			
UK Corporation tax recovered		3	–
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(8,536)	(12,051)
Loan to joint venture		(100)	–
		(8,636)	(12,051)
Acquisitions and disposals			
Payments to acquire share in joint venture		–	(50)
Equity dividends paid		(1,544)	(1,409)
Net cash outflow before financing		(6,602)	(11,498)
Financing			
Ordinary share issue (net of expenses)		209	1,146
Term bank loan 2008		10,200	6,625
Revolving 364 day facility		(3,750)	3,750
Net cash inflow from financing		6,659	11,521
Increase in cash		57	23
Reconciliation of net cash flow to movement in net debt*		2003 £'000	2002 £'000
Increase in cash in the period		57	23
Cash inflow from loans		(6,450)	(10,375)
Movement in net debt in the period		(6,393)	(10,352)
Net debt at 1 July	22	(47,389)	(37,037)
Net debt at 30 June	22	(53,782)	(47,389)

* Net debt includes the Convertible Loan Stock 2016

Notes to the Financial Statements

1 (a) Accounting policies

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

(b) Basis of preparation

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

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

(c) Basis of consolidation

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

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

(d) Investment properties

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

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

(e) Development loans

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

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

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

Notes to the Financial Statements

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

(g) Recognition of income

Rental income is included in these financial statements on a receivable basis.

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

(h) Deferred tax

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

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

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

(i) Investment in subsidiaries and joint ventures

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

(j) Derivative instruments

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

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

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

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

(k) Finance leases

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

Notes to the Financial Statements

2 Turnover

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

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Rental and fee income	6,442	5,297
Finance lease income	269	253
	<u>6,711</u>	<u>5,550</u>

3 Interest payable

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Convertible loan stock interest	310	310
Bank term loan interest	2,261	1,937
Bank swap interest	439	263
	<u>3,010</u>	<u>2,510</u>

4 Interest receivable

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Bank interest	10	18
Development loan interest	45	84
	<u>55</u>	<u>102</u>

Notes to the Financial Statements

5	Operating profit is stated after charging	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
	Management fee (i)	756	634
	Directors' fees (ii)	92	79
	Property management fees	53	46
	Bank non-utilisation fees	4	26
	Bank charges and loan commitment fees	60	6
	Auditors' remuneration – for audit services	27	27
	– for other services	29	32

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

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

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
J O Hambro Capital Management Limited	345	290
Nexus Property Management Services Limited	411	344
	756	634
	756	634

J O Hambro Capital Management Limited is also Company Secretary.

As at 30 June 2003, £28,788 of management fees payable to J O Hambro Capital Management Limited was outstanding (2002: £25,104), and £1,880 was payable to Nexus Property Management Services Limited (2002: £5,808).

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
(ii) Directors' fees:		
Total fees	92	79
	92	79

There were no staff costs.

Notes to the Financial Statements

5 Operating profit is stated after charging (continued)

(iii) Remuneration of Directors:

	Year ended 30 June 2003 £	Year ended 30 June 2002 £
Mr G A Elliot (Chairman)	17,500	15,625
Mr H A Hyman (Managing Director)	12,500	10,625
Mr J D Hambro	12,500	10,625
Mr M Gilbert	12,500	10,625
Professor P Pietroni	12,500	10,625
Mr P Sandford	12,500	10,625
Mr A Dalgliesh	12,500	10,625

The Directors' fees for Mr H A Hyman and Mr A Dalgliesh were paid to NPMS. Mr Hyman's family interests are the controlling shareholder of NPMS. The Company also paid to NPMS £53,000 (2002: £46,000) property management fees shown on page 31.

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

Professor P Pietroni also received from the Company £7,500 for his services to Primary Health Solutions Limited.

6 Taxation

	2003 £'000	2002 £'000
(a) Tax on profit on ordinary activities		
The tax charge is made up as follows:		
<i>Current tax</i>		
UK Corporation tax	226	203
	<u>226</u>	<u>203</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	494	605
Prior year adjustment	(4)	-
Increase in discount	(490)	(605)
	<u>-</u>	<u>-</u>

Notes to the Financial Statements

6 Taxation (continued)

(b) Factors affecting the tax charge for the year

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

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	2,179	2,015
Theoretical tax at UK Corporation tax rate of 30%	654	605
Effects of:		
Disallowed expenses and non-taxable income	66	203
Capital allowances on non-depreciated investment properties	(494)	(605)
Current tax charge for the year	<u>226</u>	<u>203</u>

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on capital gains that would have arisen if the Group's Investment Properties had been sold for their book value at the balance sheet date. The amount unprovided for is approximately £4.7 million (2002: £2.8 million). At present, it is not envisaged that any tax will become payable in the foreseeable future.

	2003 £'000	2002 £'000
(d) Deferred tax		
The deferred tax position is as follows:		
Accelerated capital allowances	2,666	2,176
Other timing differences	—	—
Undiscounted provision for deferred tax	<u>2,666</u>	<u>2,176</u>
Discount	(2,666)	(2,176)
Discounted provision for deferred tax	<u>—</u>	<u>—</u>
	2003 £'000	2002 £'000
Provision at start of year	—	—
Deferred tax charge	—	—
Prior year adjustment	—	—
Provision at end of year	<u>—</u>	<u>—</u>

Notes to the Financial Statements

7 Earnings per share

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

	As at 30 June 2003			As at 30 June 2002		
	Net profit attributable to ordinary shareholders	Ordinary shares	Per share	Net profit attributable to ordinary shareholders	Ordinary shares	Per share
	£'000	number	pence	£'000	number	pence
Basic earnings per share	1,953	16,612,427†	11.8	1,812	16,037,657†	11.3
Option conversion*	–	603,528		–	607,013	
Convertible Loan Stock Conversion**	279	3,478,261		279	3,478,261	
Diluted earnings per share	<u>2,232</u>	<u>20,694,216</u>	<u>10.8</u>	<u>2,091</u>	<u>20,122,931</u>	<u>10.4</u>

† 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 Financial Reporting Standard No. 14: Earnings per share.

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

8 Tangible fixed assets and development loans

	As at 30 June 2003			
	Property in the course of development	Investment properties	Development loans	Total
<i>Group</i>	£'000	£'000	£'000	£'000
Freehold properties				
Cost or valuation at 1 July 2002	706	76,932	15	77,653
Additions at cost	8,473	91	45	8,609
Transfer	(7,774)	7,774	(49)	(49)
Revaluation for the year	–	7,497	–	7,497
As at 30 June 2003	<u>1,405</u>	<u>92,294</u>	<u>11</u>	<u>93,710</u>

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

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

The historical cost of properties held by investment subsidiaries including property in the course of development was £73.44 million (2002: £64.88 million).

Notes to the Financial Statements

9	Investments	2003	2002
		£'000	£'000
	<i>Group</i>		
	Joint venture:		
	Balance at the beginning of year	47	–
	Additions	–	50
	Share of loss retained by joint venture	(178)	(3)
	Loan to joint venture	100	–
	Balance at end of year	(31)	47
		Investment in subsidiaries	Joint
		Shares	venture
		Loans	£'000
		Total	£'000
	<i>Company</i>	£'000	£'000
	At 1 July 2002	187	65,245
	Loans to subsidiary during the year	–	8,290
	At 30 June 2003	187	73,535
		65,432	8,290
		73,722	50

The principal subsidiaries of the Company are stated below:

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

All of the principal subsidiaries are directly held.

The Company has a number of non-operating subsidiary companies which hold the legal title to the investment properties held by the group. A full list of subsidiaries will accompany the Annual Return filed at Companies House.

Joint venture

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

Notes to the Financial Statements

10 Debtors	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	121	–	214	–
VAT recoverable	–	37	337	560
Prepayments	314	108	156	58
Cash held at solicitors	–	–	2,291	–
Property purchase deposits paid*	223	–	–	–
	<u>658</u>	<u>145</u>	<u>2,998</u>	<u>618</u>

* The balance payable on completion of the properties is included within commitments set out in note 23.

11 Creditors: amounts falling due within one year	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Rents received in advance	1,510	–	1,226	–
VAT payable	35	–	–	–
Other creditors and accruals	2,157	1,438	1,277	778
Revolving 364 day bank loan	–	–	3,750	3,750
Taxation	681	–	452	–
Proposed dividend	836	836	742	742
Property completion payable	–	–	2,291	–
	<u>5,219</u>	<u>2,274</u>	<u>9,738</u>	<u>5,270</u>

12 Creditors: amounts falling due after more than one year

The seven year term loan repayable in 2008 is secured by an unlimited guarantee from each subsidiary and a first fixed charge over the ownership of each property. Interest is payable on the loan at a fixed percentage rate above LIBOR, and this has fluctuated in the year between 4.95% and 4.39%. However, the Company has taken out interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 13.

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 the stock tendered for conversion. In the event of the winding up of the Company Loan Stock held by the stockholder will become immediately repayable at par, together with accrued interest. Interest is payable at the rate of 7.75% half yearly on 31 March and 30 September each year.

Notes to the Financial Statements

13 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found in the Report of the Directors on pages 11 to 15. All of the Group's financial instruments are Sterling denominated. The disclosures below exclude short term debtors and creditors.

Interest rate risk profile of financial liabilities

	Total £'000	Floating rate £'000	Fixed rate £'000	Non- interest bearing £'000
As at 30 June 2003	54,200	15,200	39,000	–
As at 30 June 2002	47,750	18,750	29,000	–

The fixed rate profile above consists of:

	Fixed interest rate per annum %	Maturity
£4 million Convertible Loan Stock	7.75	March 2016
£10 million interest rate swap*	5.78	September 2004
£5 million interest rate swap*	5.39	April 2006
£5 million interest rate swap*	5.875	July 2006
£5 million interest rate swap*	5.64	March 2007
£5 million interest rate swap*	4.82	July 2008
£5 million interest rate swap*	4.16	July 2008

*In addition to the fixed rate a variable margin, currently a weighted average of 0.8108% per annum, is charged.

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

	Start date	Fixed interest rate per annum %	Maturity
£10 million interest rate swap	April 2004	5.14	April 2006
£15 million interest rate swap	April 2006	5.14	July 2006
£20 million interest rate swap	July 2006	5.14	March 2007

Notes to the Financial Statements

13 Derivatives and other financial instruments (continued)

	Fixed rate Weighted average interest rate %	Weighted average period for which rate is fixed years
As at 30 June 2003	6.32	4.12
As at 30 June 2002	6.68	4.81

Interest rate profile of financial assets

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

	Financial assets			
	Total £'000	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000
As at 30 June 2003	3,002	2,573	429	–
As at 30 June 2002	2,944	2,568	376	–

Floating rate financial assets comprise cash at bank on which interest is earned at monthly rates, and development loans on which interest is charged between 1.1% and 1.5% above Bank of England base rate. Fixed rate financial assets comprise finance leases. The weighted average interest on the fixed rate financial assets are 11.27% (2002: 11.30%), of which the aggregate rentals on assets to the value of £2,424,000 increase at a minimum of 2.5% per annum until maturity. The weighted average period for financial assets on which fixed rate interest is paid is 28 years (2002: 29 years).

Fixed rate financial assets in the sum of £2,480,000 (2002: £2,474,000) mature in more than five years. The floating rate financial assets mature in less than one year.

Maturity of financial liabilities	2003 £'000	2002 £'000
-----------------------------------	---------------	---------------

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

In one year or less, or on demand	–	3,750
In more than one year, but not more than two	–	–
In more than two years, but no more than five*	50,200	–
In more than five years	4,000	44,000
	<u>54,200</u>	<u>47,750</u>

* The Group has an option to convert its facilities into longer term finance maturing in 2022.

Notes to the Financial Statements

13 Derivatives and other financial instruments (continued)

Borrowing facilities

During the year the Company entered into a new £15 million term loan commitment. Total available facilities at 30 June 2003 amounted to £65 million (2002: £50 million). The undrawn committed facilities available at 30 June in respect of which all conditions precedent had been met at that date are as follows:

	2003	2002
	£'000	£'000
Expiring in one year or less	10,000	6,250
Expiring in more than one year but not more than two years	–	–
Expiring in more than two years	4,800	–
	<u>14,800</u>	<u>6,250</u>

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

Fair values of financial assets and financial liabilities

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

	Book value	Fair value	Book value	Fair value
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Primary financial instruments:				
Long term borrowings	(54,200)	(54,200)	(43,750)	(43,750)
Convertible loan stock	(4,000)	(6,226)	(4,000)	(6,261)
Long term debtors	2,573	5,696	2,568	5,092
Cash	418	418	361	361
Development loans	11	11	15	15
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	–	(1,670)	–	(314)

Market values have been used to determine the fair value of interest rate swaps. The fair value of the convertible loan stock is based on the mid-market Ordinary share value of £1.79 (2002: £1.80) at the year end. The fair value of the net investment in finance leases has been determined by the Directors by discounting the future receipts from those leases at the Group's current cost of capital.

Notes to the Financial Statements

13 Derivatives and other financial instruments (continued)

Hedging strategy

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

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

	Gains £'000	Losses £'000	Total £'000
Gains and losses unrecognised as at 30 June 2003	–	(1,670)	(1,670)
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2004	–	(599)	(599)
Gains and losses included in the profit and loss account that arose in previous years	–	(439)	(439)
Gains and losses unrecognised as at 30 June 2002	–	(314)	(314)
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2003	–	(370)	(370)
Gains and losses included in the profit and loss account that arose in previous years	–	(263)	(263)

14 Called up share capital

	2003		2002	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of 50p each	40,000,000	20,000	40,000,000	20,000
Issued and fully paid at 50p each	16,716,977	8,358	16,485,000	8,243

Pursuant to an option agreement dated 14 March 1996, NPMS and JOHCM were granted options to subscribe for a total of 1.6 million shares in the Company in the proportion of 960,000 shares to NPMS and 640,000 shares to JOHCM at a subscription price of £1 per share. These options were 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) had increased since the date of admission of securities to the official list 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 2002 and 2003 these conditions had been met.

Notes to the Financial Statements

14 Called up share capital (continued)

On 28 November 2002 JOHCM exercised its option to subscribe for 213,333 shares at the subscription price of £1 per share leaving a balance of 426,667 options remaining. At the Extraordinary General Meeting held on 30 May 2003 the terms of the existing management options were varied permitting them to be exercised at any time other than during a Prohibited Period and allowing any number of options to be exercised at any time.

In respect of the interim dividend for the year ended 30 June 2003, Shareholders were offered the opportunity to receive Ordinary shares in lieu of the cash dividend. 189 holders of a total of 655,984 shares elected to receive shares instead of a cash dividend resulting in the issue of 18,644 new Ordinary shares.

15 Share premium account

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning of year	6,563	6,563	5,810	5,810
Premium on issue of 50p Ordinary shares	–	–	769	769
Premium on issue of 50p Ordinary shares following exercise of options	107	107	–	–
Premium on issue of 50p Ordinary shares in lieu of cash dividend	24	24	–	–
Issue expenses	(5)	(5)	(16)	(16)
Balance at end of year	<u>6,689</u>	<u>6,689</u>	<u>6,563</u>	<u>6,563</u>

16 Capital reserve

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning and end of year	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>

17 Revaluation reserve

	2003 £'000	2002 £'000
Balance at beginning of year	12,756	8,287
Uplift in valuation during the year	7,497	4,469
Balance at end of year	<u>20,253</u>	<u>12,756</u>

Notes to the Financial Statements

18	Profit and loss account	2003		2002	
		Group £'000	Company £'000	Group £'000	Company £'000
	Balance at beginning of year	709	452	381	166
	Retained profit for the year	460	350	331	286
	Share of operating loss in joint venture	(178)	–	(3)	–
	Balance at end of year	<u>991</u>	<u>802</u>	<u>709</u>	<u>452</u>
19	Reconciliation of shareholders' funds	2003		2002	
		Group £'000	Company £'000	Group £'000	Company £'000
	Opening Shareholders' funds	29,889	16,876	23,946	15,444
	Increase in revaluation reserve	7,497	–	4,469	–
	Profit for the year	2,131	2,021	1,815	1,770
	Share of operating loss in joint venture	(178)	–	(3)	–
	Dividends paid and proposed	(1,671)	(1,671)	(1,484)	(1,484)
	Gross proceeds from issue of Ordinary shares	246	246	1,162	1,162
	Expenses on issue of Ordinary shares	(5)	(5)	(16)	(16)
	Closing Shareholders' funds	<u>37,909</u>	<u>17,467</u>	<u>29,889</u>	<u>16,876</u>
20	Net asset value per share			2003	2002
				pence	pence
	Ordinary share – basic			226.77	181.31
	– diluted			200.61	164.58

The basic net asset value per Ordinary share is based on net assets attributable to Ordinary Shareholders of £37,909,000 (2002: £29,889,000) and on 16,716,977 (2002: 16,485,000) shares, being the number of shares in issue at the year end.

Notes to the Financial Statements

20 Net asset value per share (continued)

Diluted net asset value per share is calculated as follows:

	2003 £'000	2002 £'000
Net assets:		
Per Consolidated Balance Sheet	37,909	29,889
Add – Loan Stock conversion	4,000	4,000
– Receipts from the exercise of options	1,387	1,600
	<u>43,296</u>	<u>35,489</u>
	2003	2002
Ordinary shares:		
Issued share capital	16,716,977	16,485,000
Add – Loan Stock conversion into shares	3,478,261	3,478,261
– New shares issued on exercise of options	1,386,667	1,600,000
	<u>21,581,905</u>	<u>21,563,261</u>

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

21 Total return per share

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

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

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

Notes to the Financial Statements

22 Notes to the statement of cash flow

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

	2003 £'000	2002 £'000
Operating profit	5,312	4,426
Decrease/(increase) in operating debtors and prepayments	272	(168)
Increase in operating creditors and accruals	332	187
Net cash inflow from operating activities	<u>5,916</u>	<u>4,445</u>

(b) Analysis of net debt

	Opening £'000	2003 Cashflow £'000	Closing £'000
Cash at bank	361	57	418
Bank loans	(43,750)	(6,450)	(50,200)
Convertible loan stock	(4,000)	–	(4,000)
	<u>(47,389)</u>	<u>(6,393)</u>	<u>(53,782)</u>

23 Capital commitments

Primary Health Investment Properties Limited, a wholly owned subsidiary of the Company, has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of approximately £13.3 million plus VAT (2002: £3.5 million plus VAT). In addition, the Group has a maximum commitment to the joint venture of £2.5 million.

24 Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £14.5 million (2002: £4.1 million).

25 Related party transactions

Details of related party transactions are provided in the Report of the Directors on pages 13 and 14, note 5 on pages 31 and 32, and note 14 on pages 40 and 41.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Primary Health Properties PLC will be held on 20 November 2003 at 2.30pm in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the following purposes:

As Ordinary Business

1. To receive and adopt the Report of the Directors and the audited financial statements for the year ended 30 June 2003;
2. To declare a final dividend of 5.0p per share;
3. To receive the Directors' Remuneration Report;
4. To re-elect Professor P Pietroni as a Director of the Company;
5. To re-elect Mr Gilbert as a Director of the Company;
6. To re-appoint Ernst & Young LLP as Auditors and authorise the Directors to fix their remuneration.

As Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions, with the exception of Resolution 7 which will be proposed as an Ordinary Resolution.

7. THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Companies Act 1985 ("the Act")) up to an aggregate nominal amount of £2,786,162 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
8. THAT, subject to and conditional upon the passing of resolution number 7 set out in the notice of the meeting, the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash as if Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the Ordinary Shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and
 - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £417,924;

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

Notice of Annual General Meeting

9. THAT the Company be generally and unconditionally authorised, in accordance with Section 166 of the Act, to make market purchases (within the meaning of Section 163 of the Act) of Ordinary shares of 50p each in the capital of the Company (“Ordinary shares”) on such terms and in such manner as the Directors may from time to time determine provided that:
- (a) the maximum number of Ordinary shares authorised to be purchased is 1,671,697;
 - (b) the minimum price which may be paid for an Ordinary share is 50p (the nominal value) (exclusive of expenses (if any) payable by the Company);
 - (c) the maximum price which may be paid for an Ordinary share is an amount equal to 105% of the average of the middle market quotations for an Ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is purchased (exclusive of expenses (if any) payable by the Company); and
 - (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
16 September 2003

Registered Office:

Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

Registered in England No. 03033634

Notes

1. Any member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. To be valid, completed forms must be received at the offices of the Company’s registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.
3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
 - (a) the register of Directors’ interests in shares of the Company;
 - (b) there are no service contracts.
4. The Company specifies, pursuant to Regulations 41 of the Uncertificated Securities Regulations 2001, that only those Shareholders registered in the register of members of the Company as at 6pm on 18 November 2003 shall be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

Shareholder Information

Financial Calendar

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

Final Dividend calendar

Record date	26 September 2003
Ex-dividend date	24 September 2003
Payment date	25 November 2003

Scrip Dividend Calendar for Final Dividend for year ended 30 June 2003

Posting of forms of election	6 October 2003
Final date for receipt of forms of election	3 November 2003
Despatch dividends payable, dividend warrants and definitive shares certificate	25 November 2003
Dealings expected to commence in new Ordinary shares	26 November 2003

Annual General Meeting

The Company's Annual General Meeting will be held on 20 November 2003 commencing at 2.30pm in the Board Room of the offices of the Registered office of the Joint Manager and Company Secretary, J O Hambro Capital Management Limited.

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.

Corporate Profile

Share Price

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

Share Dealing

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

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

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

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

General Information About the Company

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

Corporate Profile

Directors

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

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 Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Joint Stockbrokers

KBC Peel Hunt plc
111 Old Broad Street
London EC2N 1PH

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

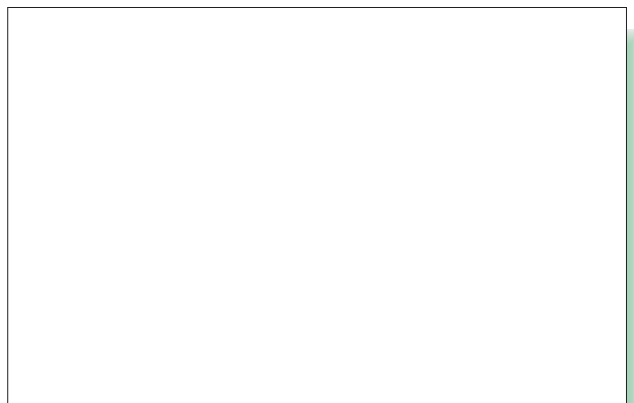
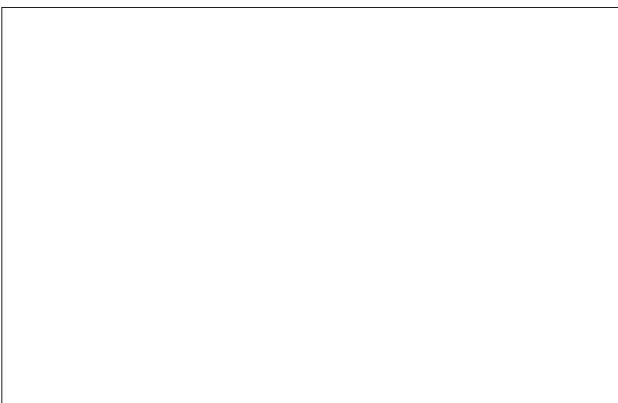
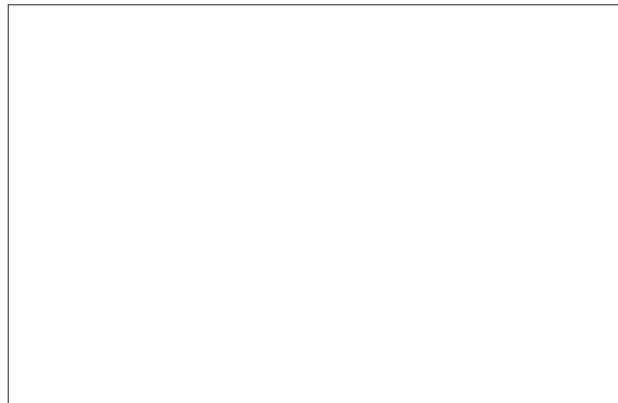
Company Secretary and Registered Office

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

Bankers

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

Modern Accommodation for the delivery of Primary Healthcare Services



Notes

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

Form of Proxy

I/We, the undersigned, being (a) member(s) of the above Company,

Name(s) in full
(BLOCK LETTERS PLEASE)

hereby appoint the Chairman of the Meeting

or see note 3)
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 20 November 2003 and at any adjournment thereof, in the following manner:

	FOR*	AGAINST*	
1.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to receive and adopt the Report of the Directors and the audited Financial Statements for the year ended 30 June 2003.
2.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to declare a final dividend of 5.0p per share.
3.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to receive the Directors' Remuneration Report.
4.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to re-elect Professor P Pietroni as a Director of the Company.
5.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to re-elect Mr Gilbert as a Director of the Company.
6.	<input type="checkbox"/>	<input type="checkbox"/>	The resolution to re-appoint Ernst & Young LLP as Auditors and authorise the Directors to fix their remuneration.
7.	<input type="checkbox"/>	<input type="checkbox"/>	The Ordinary Resolution authorising the Company to allot equity securities.
8.	<input type="checkbox"/>	<input type="checkbox"/>	The Special Resolution to disapply pre-emption rights when issuing equity securities.
9.	<input type="checkbox"/>	<input type="checkbox"/>	The Special Resolution authorising the Company to make market purchases of Ordinary shares.

* Please indicate by marking 'X' in the appropriate space how you wish your vote to be cast. Unless so indicated the proxy will vote or abstain as he/she thinks fit.

As WITNESS my/our hand(s) this day of 2003.

Signature

NOTES:

1. If this form is returned without any indication as to how the person appointed proxy shall vote, the Chairman will exercise his discretion as to how he votes or whether he abstains from voting.
2. This form of proxy, duly signed, and any power of attorney under which it is executed, must be deposited at the offices of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
3. A member may appoint a proxy of his own choice by deleting the reference to the Chairman and inserting the name of his proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member.
4. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, this form may be signed by any one of the holders, but the names of all of them should be stated.

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122

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First
fold

CAPITA REGISTRARS (Proxies)
PO BOX 25
BECKENHAM
KENT
BR3 4BR

Second fold