

Primary Health Properties PLC
Annual Report for the year ended 30 June 2004

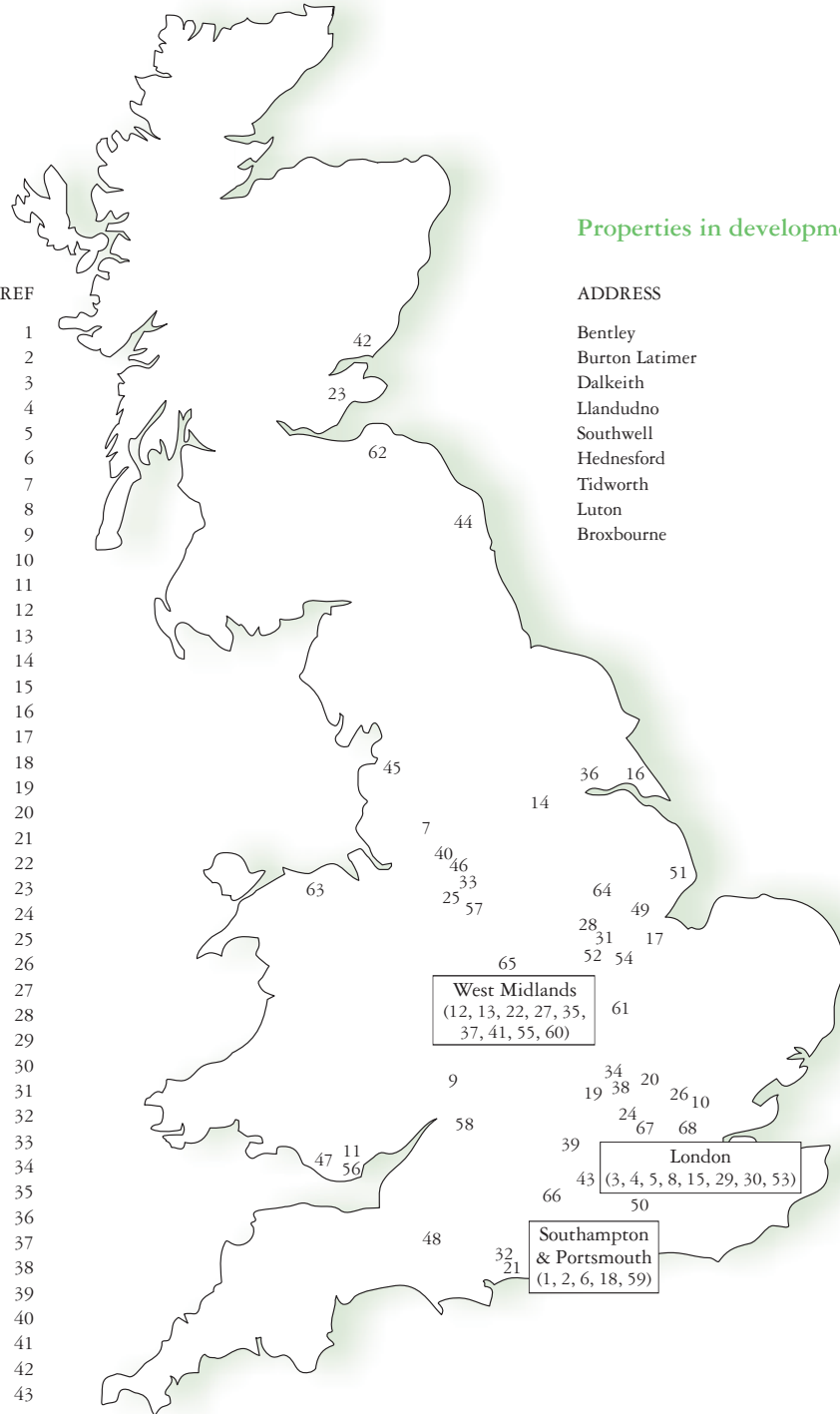
Map showing location of Properties

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
Willesden 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
Larksfield 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
University Medical Centre, Lancaster, Lancs.	45
The Delamere Centre, Stretford, Greater Manchester	46
Stanwell Medical Centre, Penarth, South Glamorgan	47
Ryalls Park Medical Centre, Yeovil, Somerset	48
Harrowby Lane Surgery, Grantham, Lincolnshire	49
Send Surgery, Send, Guildford	50
Hawthorn Medical Practice, Skegness, Lincolnshire	51
Aspley Medical Centre, Nottingham	52
Amwell Street Practice, London. WC1	53

Properties in development

ADDRESS	REF
Bentley	60
Burton Latimer	61
Dalkeith	62
Llandudno	63
Southwell	64
Hednesford	65
Tidworth	66
Luton	67
Broxbourne	68



ADDRESS (continued)	REF
Derby Road Health Centre, Lenton, Nottingham	54
Warley Medical Centre, Oldbury, West Midlands	55
Four Elms Practice, Pengam Green, Cardiff, Sth. Glam.	56
Gatley Medical Centre, Cheshire	57
Winchcombe Medical Centre, Winchcombe, Glos.	58
Forton Road Practice, Gosport, Hampshire	59

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Objective of the Group

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

Group Financial Highlights

	As at 30 June 2004	As at 30 June 2003
Net assets (£m)	49.9	37.9
Net asset value per share (p) – basic	274.7	226.8
– diluted	243.7	200.6
Increase in net asset value per share (p) – basic	47.9	45.5
– diluted	43.1	36.0
Closing portfolio including development loans and finance leases (£m)	131.1	96.3
Commitments (including deposits paid) (£m)	18.2	13.3
Portfolio purchased and committed (£m)	149.3	109.6
Annualised delivered rent roll (£m)	8.4	6.9
Profit before taxation (£m)	2.5	2.2
Profit after taxation (£m)	2.5	2.0
Earnings per share (p) – basic	13.9	11.8
– diluted	12.8	10.8
Proposed final dividend per share (p)	5.5	5.0
Total dividend per share (p)	11.0	10.0
Total return per share (p) – basic	59.0	55.5
– diluted	54.0	46.0

Eight Year Summary of Key Performance Indicators

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

* Rebased to 100 at 30 June 1997.

† Capital return

Chairman's Statement

This was another good year for Primary Health Properties. The Group produced a further year of profit growth with Group profit before taxation for the year ended 30 June 2004 totalling £2,472,000, (2003: £2,179,000), an increase of 13.4%.

Diluted earnings per share increased by 19% to 12.8p (2003: 10.8p). This higher increase resulted primarily from the fact that no UK corporation tax was charged to profits during the year (2003: £226,000).

In addition the Group posted its highest ever fully diluted net asset value of 243.7p per share, a rise of 21.5%. The diluted total return for the year was 54.0p (2003: 46.0p).

The Board has recommended a final dividend of 5.5p per Ordinary share that with the interim dividend makes a total of 11.0p per share for the year, an increase of 10% over the total dividend of 10.0p per share paid in respect of the previous year.

The Board has the authority to offer Ordinary shares instead of cash in respect of dividends. A circular offering Shareholders on the register on 24 September 2004 the opportunity to receive new Ordinary shares instead of the cash dividend in respect of the final dividend together with a form of election and/or Notice of Entitlement will be posted to Shareholders with the Annual Report. The latest date for receipt of the Forms of Election is 28 October 2004.

The year end valuation carried out on behalf of the Board by Lambert Smith Hampton has resulted in a revaluation surplus of £10.1m for the year. Of this £4.0m was accounted for at the interim stage. The undiluted net asset value per share has risen from 226.8p per share to 274.7p and the diluted net asset value from 200.6p to 243.7p, reflecting both rental increases and current yields in the market. In addition, the calculation of the net asset value was affected by the exercise of options resulting in the issue of 1,386,667 Ordinary shares at £1 each and the issue of 43,489 Ordinary shares pursuant to the scrip dividend scheme.

On 19 August 2004 the Royal Bank of Scotland converted its £4.0m Convertible Unsecured Loan Stock 2016. This has resulted in the issue of a further 3,478,260 Ordinary shares of 50p each. The number of Ordinary shares in issue is now 21,625,393.

Rent reviews during the year have again performed well and at the year end our rent roll had increased from £6.9m to £8.4m, an increase of 22%.

During January 2004, we agreed a further increase of £20m in our banking facilities, which total £95m. As announced in the interim report, the Board has decided to recommend to shareholders at the Annual General Meeting an increase in the Group's permitted gearing level to 75% of Gross Assets. This would enable the Group to expand its portfolio to £215m based on existing equity and quasi equity resources.

Purchase of properties amounted to £24.9m during the year and our commitments at the year end totalled £18.2m. Our portfolio, including commitments, was £149.3m at 30 June 2004, an increase from £109.6m at the previous year end.

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. We have continued to monitor our exposure to interest rates and have entered into a new £10m swap arrangement for six years from 2007 to 2013 and a new £10m swap arrangement for ten years from 2004 to 2014. For the year to 30 June 2005 we have covered approximately 64.3% of our exposure to interest rates at an average rate before margin of 5.24% falling to approximately 31.5% in five years time with an average rate before margin of 5.55%

The share save scheme has 33 members holding 37,937 shares.

The portfolio at the date of this report has 59 properties with a further 9 contracted for delivery during the next 12 months. The portfolio has performed well in both capital and income terms and we believe that although there is increased competition in the market place, the prospects for investment in the sector with its long lease lengths and good quality covenants make the portfolio highly attractive.

G A Elliot, Chairman
16 September 2004

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 ten new developments (2003: six new developments) and entered into a further nine development commitments (2003: eight development commitments). At the year end the portfolio, when commitments are included, reached £149.3 million (2003: £109.6 million) as set out below.

	30 June 2004	30 June 2003
	£m	£m
Investment properties	122.6	92.3
Properties in course of development*	6.0	1.4
Finance leases	2.5	2.6
Total owned and leased	<u>131.1</u>	<u>96.3</u>
Deposits paid	–	0.2
Committed	<u>18.2</u>	<u>13.1</u>
Total owned, leased and committed	<u><u>149.3</u></u>	<u><u>109.6</u></u>

* Properties in the course of development include development loans.

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	
Skegness, Lincolnshire	2.0	Doctors Practice, PCT and Pharmacy
Aspley, Nottingham	1.1	Doctors Practice
Boston, Lincolnshire	2.2	Doctors Practice, PCT and Pharmacy
Amwell Street, London	4.4	Doctors Practice
Lenton, Nottingham	1.8	Doctors Practice and Pharmacy
Oldbury, West Midlands	2.8	Doctors Practice and Pharmacy
Pengam Green, Cardiff	1.4	Doctors Practice
Gatley, Cheshire	1.7	Doctors Practice
Winchcombe, Gloucestershire	1.0	Doctors Practice
Gosport, Hampshire	1.6	Doctors and Pharmacy
TOTAL	<u><u>20.0</u></u>	

Revaluation

As reported in the Chairman's Statement, the portfolio valuations have resulted in an uplift of some £10 million which has been incorporated into the balance sheet, giving a closing property investment valuation (including finance leases) of £131.1 million. This increase amounted to 55.4p per share on an undiluted basis and 43.3p per share on a fully diluted basis.

Managing Director's Report (continued)

Portfolio Rental Levels

The average rent across the whole portfolio is around £155 per square metre (£14.40 per square foot) (2003: £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 £149 per square metre (£13.85 per square foot) (2003: £148 per square metre, £13.75 per square foot) and the average pharmacy rent is around £190 per square metre (£17.70 per square foot) (2003: £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 £74,000 to our rent roll. There are further reviews due from the past year which amount to some £1.64m of rent passing. 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. The weighted average length of time to the next review is 1.66 years across the portfolio.

Future Accounting Standards

For accounting periods starting after 1 January 2005, all listed companies in the UK which present consolidated Financial Statements, 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 £50.2m to £72.2m during the year. Including the convertible loan stock of £4.0 million year end borrowings totalled £76.2m of which £49.0m has been hedged as follows:

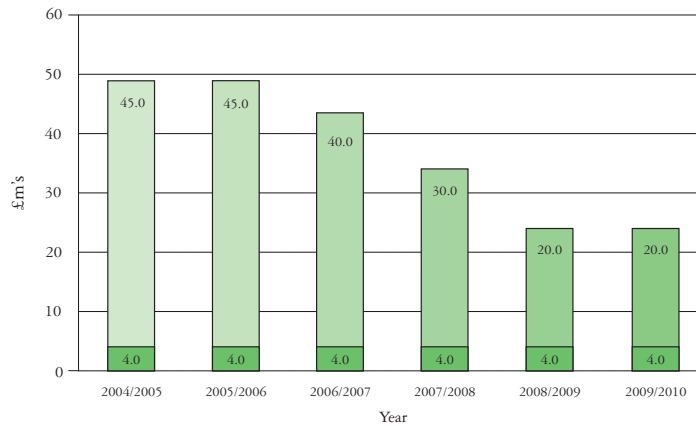
Convertible 2016 fixed rate of 7.75%	£4.0m
Swaps at average rate of 5.303%	<u>£45.0m</u>
Total fixed rate and hedged debt	<u><u>£49.0m</u></u>

The average weighted cost of finance for the fixed element of the debt is 5.50% (2003: 5.60%) (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 opposite.

Managing Director's Report (continued)

Fixed Rate Funding



The bar chart above shows the level of fixed rate financing for each of the next 6 financial years from swaps and the convertible loan stock.

The Group has facilities of £95m and is discussing the possibility of adding further bank lines. £10m is on a 364 day facility basis while the balance of £85m is a 7 year bullet facility repayable in 2008. The Group has negotiated an option to extend its ability to convert all of its term facilities of £95m into longer term finance that would mature in 2022, whilst retaining the flexibility to refinance if considered attractive.

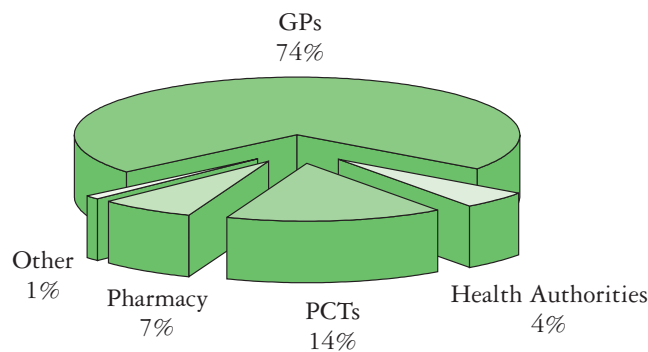
Convertible Loan Stock March 2016

On 19 August 2004, the Royal Bank of Scotland converted its £4.0m Convertible Unsecured Loan Stock 2016. This has resulted in the issue of a further 3,478,260 Ordinary Shares of 50p each.

Portfolio Characteristics

Users

The pie chart below shows the percentage of our portfolio by rent roll derived from each of our major tenant classes, GPs, PCTs, Health Authorities, pharmacy operators and others. Some 99% (2003: 99%) of our rent roll comes directly or indirectly from the NHS and pharmacy operators.



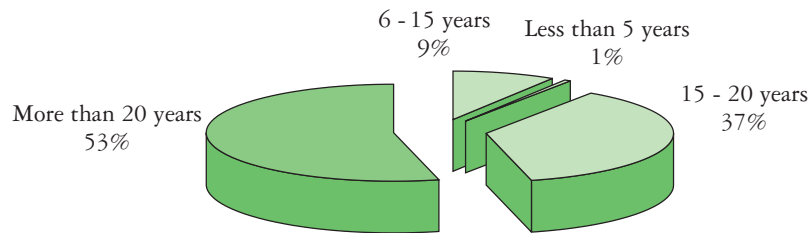
Covenant Analysis by Annual Rent

Managing Director's Report (continued)

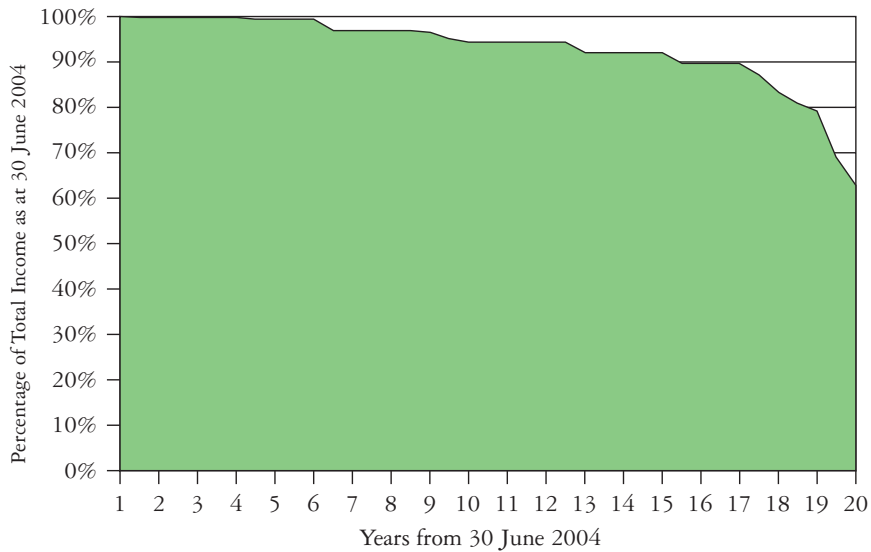
Length of Leases

Two diagrams below show the length of lease by lease expiry and percentage of today's passing rent. A third diagram reflects security of income by term certain. The pie chart indicates that some 90% (2003: 91%) 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 by year 20 the Group would still be receiving 63% of its current income while at year 18 the figure is 83%.

Analysis of Annual Rent by Term Unexpired

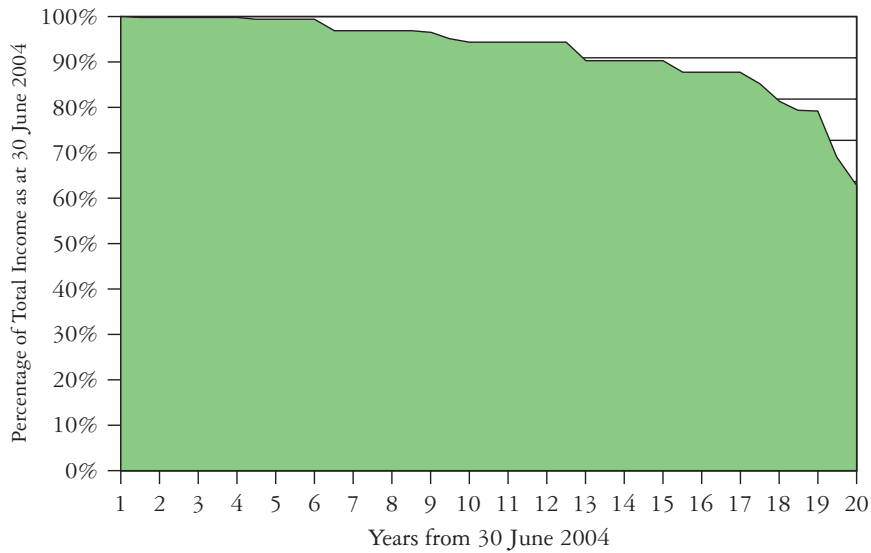


Security of Income by Lease Expiry



Managing Director's Report (continued)

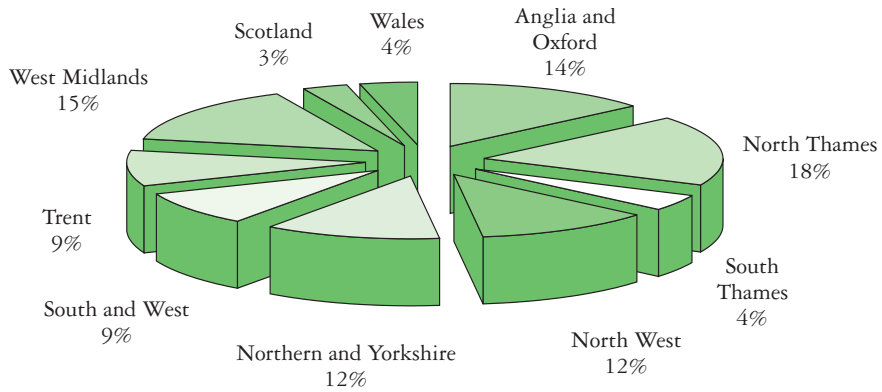
Security of Income by Term Certain



Geographical Spread

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

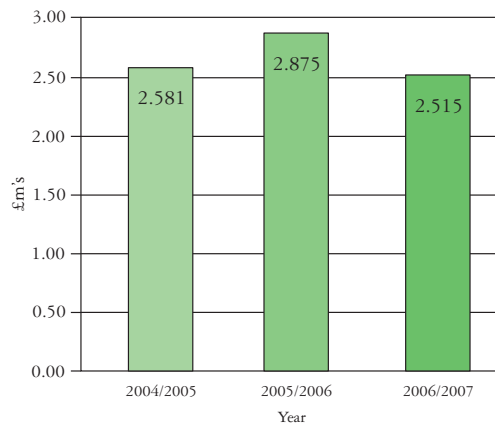
Annual Rent by Region



Forthcoming Rent Reviews

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

Rent Reviews by Annual Rent



Managing Director's Report (continued)

The Primary Care Market

Over the last year we have seen the Government's much heralded NHS LIFT programme set up across many deprived areas in England. Although 42 schemes are currently being developed across the country, only 5 LIFT schemes have established the LIFTCo – the joint venture partnership company between the public and private sectors – and only 28 have completed the bidding process. We continue to watch the developments with interest.

Outside of the NHS LIFT remit, we are encouraged to see that Third Party Developer schemes are occurring within LIFT areas and we completed the purchase of a new medical centre in Oldbury during the past year. This proves that the market is still strong, working alongside LIFT, and we look forward to purchasing future projects in these areas.

Throughout the rest of the country, demand for new medical centres continues. There is more cohesion within PCTs to see the primary care framework evolve and to see the improvement of patient services, whether delivered direct from PCT community services or from General Practitioners.

The investment market for new primary care facilities has expanded over the last year with new investors coming into the market. Whilst this will help to develop the primary care premises market, we must continue to invest prudently and take full advantage of the position we hold in the marketplace.

We have continued to add value to properties in the portfolio by negotiating new lease terms and refurbishing premises. For example, we successfully negotiated a lease extension on Lever Chambers in Bolton, to extend the term certain to 20 years from 7 years, adding significant value to the investment.

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 mean time 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 2004

Directors and Managers

Directors

Graeme Elliot*, aged 62, 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 48, 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 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 Dalglish, aged 31, Property Director. Appointed October 1998. Mr Dalglish is a member of the Royal Institution of Chartered Surveyors. He qualified with Lambert Smith Hampton where he was previously employed. He has been responsible for the property management of PHP's portfolio since 1996. Mr Dalglish is a Director of Primary Health Solutions Limited.

Martin Gilbert*, aged 49, Non-Executive Director. Appointed May 1996. Mr Gilbert is chief executive of Aberdeen Asset Management PLC, whose wholly-owned subsidiary Aberdeen Asset Managers Limited holds 7.57% 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 39, 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 55, Non-Executive Director. Appointed February 1996. Mr Hambro is chairman of J O Hambro Capital Management Group Limited and its subsidiaries and corporate entities, including J O Hambro Capital Management Limited, Company Secretary, and North Atlantic Value LLP joint manager of North Atlantic Smaller Companies Trust PLC which holds 9.25% 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 61, 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 37, 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 8.21% 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 through its four FSA authorised corporate entities provides investment management services to investment trusts, venture capital trusts, open ended investment companies, hedge funds and other funds. JOHCM is regulated by the FSA.

Report of the Directors

Results and Dividends

The profit for the financial year ended 30 June 2004 after taxation amounted to £2,472,000 (2003: £1,953,000). The Directors recommend the declaration of a final dividend of 5.5p per share (2003: 5.0p) and accordingly a resolution will be put to the Annual General Meeting on 18 November 2004 to declare a final dividend in respect of the year ended 30 June 2004 payable on 25 November 2004 to Shareholders on the register at the close of business on 24 September 2004.

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 2004 offering Shareholders on the Register of Members on 24 September 2004 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 28 October 2004.

Subsequent to the year end, the holder of the Convertible Loan Stock converted its holding of £4.0m Convertible Loan Stock March 2016 into 3,478,260 Ordinary shares of 50p each. Interest on the Convertible Loan Stock ceased to accrue on 19 August 2004. The shares issued do not rank for the final dividend in respect of the year ended 30 June 2004. The new Ordinary Shares were issued on 19 August 2004 pursuant to the terms of the Loan Stock Instrument dated 14 March 1996. The current issued share capital is 21,625,393 Ordinary shares.

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 10 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 64.3% 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:

Report of the Directors (continued)

	<i>Amount</i>	<i>Maturity</i>
Convertible Loan Stock	£4m	2016
Bank borrowings	£85m	2008
Bank borrowings	£10m	364 days

At the year end the convertible loan stock was drawn in full and there was £72,210,000 drawn under the 2008 bank facility.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to have a majority of borrowings maturing in more than twelve months. The Company has negotiated an option to extend its ability to convert all of its 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
Royal Bank of Scotland PLC	3,478,260	16.08
North Atlantic Smaller Companies Investment Trust PLC	2,000,000	9.25
High Tor Limited	1,775,000	8.21
Aberdeen Asset Managers Limited	1,637,803	7.57
Nexus Structured Finance Limited*	978,615	4.53

* Connected person of Mr H A Hyman.

Mr Hambro is Chairman of the two Designated Members of North Atlantic Value LLP, which is Joint Manager of North Atlantic Smaller Companies Investment Trust Plc which holds 9.25% of the issued share capital of the Company. Mr Sandford is a Director of High Tor Limited and Mr Gilbert is a Chief Executive of Aberdeen Asset Managers Limited.

Clients of North Atlantic Value LLP hold 60,000 Ordinary shares of 50 pence each.

Directors

Details of the Directors in office at 30 June 2004 appear on page 11.

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

Report of the Directors (continued)

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 2004 and 1 July 2003 are set out below:

	2004	2003
	Ordinary Shares of 50p	Ordinary Shares of 50p
G A Elliot	5,000	5,000
M J Gilbert	–	–
W J C Hemmings: (alternate to M J Gilbert)	607	196
J D Hambro	10,000	10,000
J D Hambro (non-beneficial)	476,667	–
H A Hyman	33,667	31,114
H A Hyman (non-beneficial)	1,021,360	46,508
P C Pietroni	–	–
P Sandford (non-beneficial)	1,775,000	1,775,000
A D S Dalglish	5,000	5,000

Mr Hyman's non-beneficial interest at the date of this report was 978,615 Ordinary shares and his beneficial interest was 34,149 Ordinary shares. At the date of this report Mr Hemmings' interest was 727 Ordinary shares.

Mr P Sandford is executive chairman of High Tor Limited, which holds 8.21% of the issued share capital of the Company.

Mr M J Gilbert is the Chief Executive of Aberdeen Asset Management PLC and a director of Aberdeen Asset Managers Limited, its wholly owned subsidiary, which holds 7.57% of the issued share capital of the Company.

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

Details of Directors' remuneration are included in the Directors' Remuneration Report on pages 21 and 22.

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 Chairman of and an indirect shareholder of JOHCM. Messrs. Hyman and Hambro are therefore deemed to have an interest in the above contract.

Management Options

On 17 September 2003, NPMS and JOHCM exercised its options over 960,000 and 426,667 Ordinary shares of 50 pence each respectively. There are no options remaining, pursuant to the option agreement between the Company, NPMS and JOHCM dated 14 March 1996.

Pursuant to an Option Agreement between the Company, JOHCM and NPMS, dated 17 September 2003, NPMS and JOHCM have been granted the option 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 NPMS 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).

Report of the Directors (continued)

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

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

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 2004 the Company had £3,363,000 of trade creditors representing 75 creditor days (2003: £2,157,000 and 53 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 50. The total number of Ordinary shares held within the Plan is currently 37,937.

Annual General Meeting

The Annual General Meeting of the Company will be held on 18 November 2004 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 47 to 49. Resolutions 1 to 6 set out in the Notice are concerned with the ordinary business customarily transacted at annual general meetings.

Explanatory Notes for the Special Business at the Annual General Meeting

Resolution 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 £3,604,232 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 £540,635 representing 1,081,269 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 2,162,539 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 48 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.

Resolution 10 – Borrowings Powers and Electronic Voting

Borrowing Powers

Pursuant to the provisions of the Company’s Articles of Association, the Board is currently required to restrict the level of the Company’s borrowings to a sum equal to 70% of the greater of the current value of all assets and their book value. In order to take advantage of the borrowing facilities now available to the Company, which it is hoped will allow expansion of the portfolio to approximately £215 million in value in due course, the Board will be seeking shareholders’ approval by way of a Special Resolution at the Annual General Meeting to amend the Articles of Association to allow this percentage to be increased from 70% to 75%. The Directors believe that this Special Resolution, which, if passed, will raise the allowable level of borrowings to an amount equal to 75% of the greater of the value of the assets and their book value, is in the best interests of the Company. The Directors therefore recommend you to vote in favour of the Special Resolutions at the Annual General Meeting.

Electronic Voting

In order to allow electronic voting to streamline the voting process and allow Crest Proxy voting, the Company is taking the opportunity to amend its Articles of Association to permit the electronic appointment of proxies thereby facilitating electronic voting. Accordingly, by way of Special Resolution, Resolution 10 also includes the provision of electronic voting in the amendments to be made to the Articles of Association.

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 2004

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

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 2004 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 11. 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 consider all directors to be independent in character and judgement. The Board as a whole comprises the optimum mix of skills and knowledge amongst directors and has clarity of goals and processes. The Board works well as a whole. Messrs Sandford and Gilbert represent significant shareholders and would not therefore be deemed independent under the New Combined Code. The Board does not consider that this impairs their independence and rather it aids continuity. The Board has reviewed its composition as a whole and considers that due to their personal experience they make a useful contribution to the Board. Professor Pietroni was asked to join the Board of the joint venture – Primary Health Solutions Limited as a nominated Board member. The Board of Primary Health Properties plc do not consider that this appointment impairs his independence.

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 14, 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 Evaluation

During the year the Board has carried out an effectiveness evaluation exercise. This was an internal exercise using a questionnaire considered by all Directors in relation to key areas of the Board arrangements in place. The results of this exercise were considered by the Board in preparation for the disclosure in respect of the New Combined Code applicable to the Group for the Annual Report 2005 and either comply or explain any non compliance. The performance of individual non-executive directors is evaluated by the Chairman.

The evaluation process provides directors with the opportunity to draw on their experience to enable them to suggest how policies and procedures might be improved, the assessment of any strengths and weaknesses and to address any perceived imbalance of skills, knowledge and experience.

Corporate Governance (continued)

Attendance at Board Meetings

Attendance is expected at all Board meetings and the Annual General Meeting.

Board

The Board has a schedule of matters reserved to it and sets down matters which require prior approval of the Board and a Standing Committee has been established delegating authority and laying down procedures to be followed to deal with matters arising between scheduled Board meetings not requiring debate. The joint managers pursuant to the Management Agreement carry out day-to-day activities pursuant to the terms of this contract.

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 11. 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.

The Committee's terms of reference are available from the Company Secretary and are displayed on the Company's web site www.phpgroup.co.uk.

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

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 42 and 43.

Corporate Governance (continued)

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 21 and 22.

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 47 to 49. The special business is also explained fully in the Explanatory Notes on pages 15 and 16. 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 below and also on page 20. The report of the Independent Auditors is on pages 23 and 24.

Internal Control

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

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.

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.

Corporate Governance (continued)

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. 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 23 and 24.

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, as required. Directors' fees are determined by the Board subject to the limits set out in the Company's Articles of Association. Directors' fees are currently £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 2004	Year ended 30 June 2003
	£	£
G A Elliot (Chairman)	17,500	17,500
H A Hyman (Managing Director)	12,500	12,500
J D Hambro	12,500	12,500
M J Gilbert	12,500	12,500
P C Pietroni	12,500	12,500
P Sandford	12,500	12,500
A D S Dalgliesh	12,500	12,500

Remuneration of Directors can also be found in Note 5 of the Financial Statements on pages 33 and 34.

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.

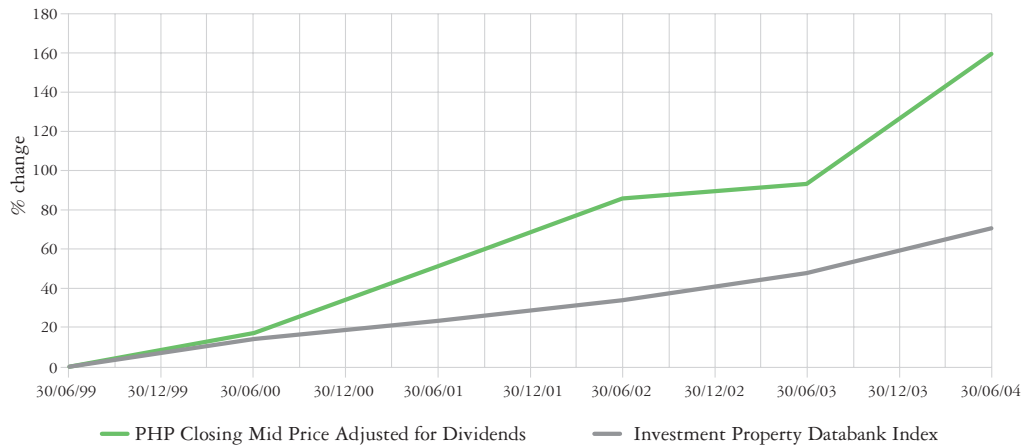
Service contracts

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 property index used as a key performance indicator on page 3 of this Annual Report.



Source: *Investment Property Databank UK Annual Index.*

The Investment Property Databank UK Annual Index ("IPD") is an index established 19 years ago and is the IPD flagship index in terms of the number of properties and length of historic coverage. At the end of 2003, the 237 portfolios and 10,800 properties covered by the Annual Index were valued at £105 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.

For the year ended 30 June 2004, the highest and lowest mid-market price of the Company's Ordinary shares was 255.5p and 178.0p respectively.

This report was approved by the Board on 16 September 2004 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 2004 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 26. 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 review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statement on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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.

Independent Auditors' Report

to the members of Primary Health Properties PLC (continued)

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the profit of the Group for the year then ended; and the financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor, London

16 September 2004

Consolidated Profit and Loss Account

for the year ended 30 June 2004

	<i>Notes</i>	30 June 2004 £'000	30 June 2003 £'000
Turnover	2	7,661	6,711
Administrative expenses	5	(1,738)	(1,399)
Operating profit		<u>5,923</u>	<u>5,312</u>
Share of operating profit/(loss) in joint venture		4	(178)
		<u>5,927</u>	<u>5,134</u>
Interest receivable	4	183	55
Interest payable	3	(3,638)	(3,010)
Profit on ordinary activities before taxation		<u>2,472</u>	<u>2,179</u>
Taxation	6	–	(226)
Profit on ordinary activities after taxation		<u>2,472</u>	<u>1,953</u>
Interim dividend of 5.5p per share (2003: 5.0p)		(997)	(835)
Final dividend proposed of 5.5p (2003: 5.0p)		(998)	(836)
Additional final dividend 2003	19	(69)	–
		<u>(2,064)</u>	<u>(1,671)</u>
Profit retained for the year		<u>408</u>	<u>282</u>
Net profit after tax and dividends for the year retained by:			
The Company		398	450
Subsidiary undertakings (after declaring dividends of £7,515,000 (2003: £6,340,000))		6	10
Joint venture		4	(178)
		<u>408</u>	<u>282</u>
Earnings per share – basic	7	13.9p	11.8p
– diluted	7	12.8p	10.8p
Dividends per share (net)		11.0p	10.0p
Increase in net asset value per share – basic	20	48.0p	45.5p
– diluted	20	43.0p	36.0p
Total return per share – basic	21	59.0p	55.5p
– diluted	21	54.0p	46.0p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 June 2004

	30 June 2004 £'000	30 June 2003 £'000
Profit for the financial year excluding share of loss in joint venture	2,468	2,131
Share of joint venture's profit/(loss) for the year	4	(178)
	<hr/>	<hr/>
Profit for the financial year attributable to members of the Parent Company	2,472	1,953
Unrealised surplus on revaluation of properties	10,050	7,497
	<hr/>	<hr/>
Total gains and losses relating to the year	<u>12,522</u>	<u>9,450</u>

All activities are continuing.

Consolidated Balance Sheet

as at 30 June 2004

	<i>Notes</i>	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	8	128,612	93,710
Investment in joint venture:			
Share of gross assets		4	75
Share of gross liabilities		(4)	(106)
		<u> </u>	<u> </u>
		–	(31)
		<u>128,612</u>	<u>93,679</u>
Current assets			
Debtors	10	1,104	658
Net investment in finance leases (amount falling due within one year: 2004: £27,000; 2003: £28,000)		2,549	2,573
Cash at bank		709	418
		<u>4,362</u>	<u>3,649</u>
Creditors: amounts falling due within one year	11	<u>(6,911)</u>	<u>(5,219)</u>
Net current liabilities		<u>(2,549)</u>	<u>(1,570)</u>
Total assets less current liabilities		126,063	92,109
Creditors: amounts falling due after more than one year			
Bank loans	12	(72,210)	(50,200)
Convertible loan stock 2016	12	(4,000)	(4,000)
		<u>(76,210)</u>	<u>(54,200)</u>
		<u>49,853</u>	<u>37,909</u>
Capital and reserves			
Called up share capital	14	9,074	8,358
Share premium account	15	7,459	6,689
Capital reserve	16	1,618	1,618
Revaluation reserve	17	30,303	20,253
Profit and loss account	18	1,399	991
		<u>49,853</u>	<u>37,909</u>
Equity Shareholders' funds	19	<u>49,853</u>	<u>37,909</u>
Net asset value per share – basic	20	274.72p	226.77p
– diluted	20	243.65p	200.61p

These financial statements were approved by the Board of Directors on 16 September 2004 and signed on its behalf by:

G A Elliot, Chairman

Company Balance Sheet

as at 30 June 2004

	<i>Notes</i>	2004 £'000	2003 £'000
Fixed assets			
Investment in subsidiaries	9	95,185	73,722
Investments:			
Tangible assets – Development loans	8	3,346	11
Investment in joint venture	9	–	50
		<u>98,531</u>	<u>73,783</u>
Current assets			
Debtors	10	375	145
Cash at bank		252	13
		<u>627</u>	<u>158</u>
Creditors: amounts falling due within one year	11	<u>(3,674)</u>	<u>(2,274)</u>
Net current liabilities		<u>(3,047)</u>	<u>(2,116)</u>
Total assets less current liabilities		95,484	71,667
Creditors: amounts falling due after more than one year			
Bank loans	12	(72,210)	(50,000)
Convertible loan stock 2016	12	(4,000)	(4,000)
		<u>(76,210)</u>	<u>(54,200)</u>
		<u>19,274</u>	<u>17,467</u>
Capital and reserves			
Called up share capital	14	9,074	8,358
Share premium account	15	7,459	6,689
Capital reserve	16	1,618	1,618
Profit and loss account	18	1,123	802
Equity Shareholders' funds	19	<u>19,274</u>	<u>17,467</u>

These financial statements were approved by the Board of Directors on 16 September 2004 and signed on its behalf by:

G A Elliot, Chairman

Consolidated Cash Flow Statement

for the year ended 30 June 2004

	<i>Notes</i>	30 June 2004 £'000	30 June 2003 £'000
Net cash inflow from operating activities	22	6,167	5,916
Returns on investments and servicing of finance			
Interest received		16	10
Interest paid		(3,157)	(2,351)
		(3,141)	(2,341)
Taxation			
UK Corporation tax recovered		–	3
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(21,077)	(8,536)
Development loans advanced		(3,223)	–
Loan to joint venture		(27)	(100)
		(24,327)	(8,636)
Equity dividends paid		(1,804)	(1,544)
Net cash outflow before financing		(23,105)	(6,602)
Financing			
Ordinary share issue (net of expenses)		1,386	209
Term bank loan 2008		22,010	10,200
Revolving 364 day facility		–	(3,750)
Net cash inflow from financing		23,396	6,659
Increase in cash		291	57
Reconciliation of net cash flow to movement in net debt*		2004 £'000	2003 £'000
Increase in cash in the period		291	57
Cash inflow from loans		(22,010)	(6,450)
Movement in net debt in the period		(21,719)	(6,393)
Net debt at 1 July	22	(53,782)	(47,389)
Net debt at 30 June	22	(75,501)	(53,782)

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

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

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

Notes to the Financial Statements (continued)

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

(g) Recognition of income

Rental 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 (continued)

2 Turnover

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

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Rental and fee income	7,391	6,442
Finance lease income	270	269
	<u>7,661</u>	<u>6,711</u>

3 Interest payable

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Convertible loan stock interest	310	310
Bank term loan interest	2,837	2,261
Bank swap interest	491	439
	<u>3,638</u>	<u>3,010</u>

4 Interest receivable

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Bank interest	16	10
Development loan interest	167	45
	<u>183</u>	<u>55</u>

Notes to the Financial Statements (continued)

5 Operating profit is stated after charging

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Management fee (i)	943	756
Directors' fees (ii)	92	92
Property management fees	56	53
Bank non-utilisation fees	56	4
Bank charges and loan commitment fees	118	60
Auditors' remuneration – for audit services	27	27
– for other services	26	29

- (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, measured at the year end.

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

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
J O Hambro Capital Management Limited	429	345
Nexus Property Management Services Limited	514	411
	<u>943</u>	<u>756</u>

J O Hambro Capital Management Limited is also Company Secretary.

As at 30 June 2004, £39,863 of management fees payable to J O Hambro Capital Management Limited was outstanding (2003: £28,788), and £8,235 was payable to Nexus Property Management Services Limited (2003: £1,880).

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
(ii) Directors' fees:		
Total fees	<u>92</u>	<u>92</u>

There were no staff costs.

Notes to the Financial Statements (continued)

5 Operating profit is stated after charging (continued)

(iii) Remuneration of Directors:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Mr G A Elliot (Chairman)	17,500	17,500
Mr H A Hyman (Managing Director)	12,500	12,500
Mr J D Hambro	12,500	12,500
Mr M Gilbert	12,500	12,500
Professor P Pietroni	12,500	12,500
Mr P Sandford	12,500	12,500
Mr A Dalgliesh	<u>12,500</u>	<u>12,500</u>

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 £56,000 (2003: £53,000) property management fees shown on page 33.

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 £3,000 for his services to Primary Health Solutions Limited.

6 Taxation

	2004 £'000	2003 £'000
(a) Tax on profit on ordinary activities		
The tax charge is made up as follows:		
<i>Current tax</i>		
UK Corporation tax	<u>–</u>	<u>226</u>
	2004 £'000	2003 £'000
<i>Deferred tax</i>		
Origination and reversal of timing differences	732	494
Prior year adjustment	254	(4)
Increase in discount	<u>(986)</u>	<u>(490)</u>
	<u>–</u>	<u>–</u>

Notes to the Financial Statements (continued)

6 Taxation (continued)

(b) Factors affecting the tax charge for the year

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

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	2,472	2,179
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	742	654
Effects of:		
Disallowed expenses and non-taxable income	(8)	66
Capital allowances on non-depreciated investment properties	(732)	(494)
Other timing differences	(2)	–
Current tax charge for the year	<u>–</u>	<u>226</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 £7.4 million (2003: £4.7 million). At present, it is not envisaged that any tax will become payable in the foreseeable future.

	2004 £'000	2003 £'000
(d) Deferred tax		
The deferred tax position is as follows:		
Accelerated capital allowances	3,652	2,666
Other timing differences	–	–
Undiscounted provision for deferred tax	<u>3,652</u>	<u>2,666</u>
Discount	<u>(3,652)</u>	<u>(2,666)</u>
Discounted provision for deferred tax	<u>–</u>	<u>–</u>

Notes to the Financial Statements (continued)

7 Earnings per share

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

	As at 30 June 2004			As at 30 June 2003		
	Net profit attributable to ordinary shareholders		Ordinary shares	Net profit attributable to ordinary shareholders		Ordinary shares
	£'000	number		£'000	number	
Basic earnings per share	2,472	17,824,559†	13.9	1,953	16,612,427†	11.8
Option conversion*	–	439,074		–	603,528	
Convertible Loan Stock Conversion**	310	3,478,260††		279	3,478,260††	
Diluted earnings per share	<u>2,782</u>	<u>21,741,893</u>	<u>12.8</u>	<u>2,232</u>	<u>20,694,215</u>	<u>10.8</u>

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

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

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

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

8 Tangible fixed assets and development loans

	As at 30 June 2004			
	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 2003	1,405	92,294	11	93,710
Additions at cost	10,918	10,599	3,389	24,906
Transfer	(9,690)	9,690	(54)	(54)
Revaluation for the year	–	10,050	–	10,050
As at 30 June 2004	<u>2,633</u>	<u>122,633</u>	<u>3,346</u>	<u>128,612</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 the Group including property in the course of development was £98.35 million (2003: £73.44 million).

Notes to the Financial Statements (continued)

9 Investments

	2004	2003
	£'000	£'000
<i>Group</i>		
Joint venture:		
Balance at the beginning of year	(31)	47
Share of profit/(loss) retained by joint venture	4	(178)
Loan to joint venture	27	100
	<u> </u>	<u> </u>
Balance at end of year	<u> </u>	<u> </u>

<i>Company</i>	Investment in subsidiaries			Joint
	Shares	Loans	Total	venture
	£'000	£'000	£'000	£'000
At 1 July 2003	187	73,535	73,722	50
Loans to subsidiary during the year	–	21,463	21,463	–
Investment in joint venture written off during the year	–	–	–	(50)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2004	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 (continued)

10 Debtors	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	215	–	121	–
VAT recoverable	135	233	–	37
Prepayments	375	142	314	108
Property purchase deposits paid and property lease extensions	379	–	223	–
	<u>1,104</u>	<u>375</u>	<u>658</u>	<u>145</u>

11 Creditors: amounts falling due within one year	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Rents received in advance	1,869	–	1,510	–
VAT payable	–	–	35	–
Other creditors and accruals	3,363	2,676	2,157	1,438
Taxation	681	–	681	–
Proposed dividend	998	998	836	836
	<u>6,911</u>	<u>3,674</u>	<u>5,219</u>	<u>2,274</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 interest payable has fluctuated in the year between 4.26% and 5.28%. 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.

On 19 August 2004, the holder of the Convertible Loan Stock 2016 exercised their option to convert all of the Loan Stock into Ordinary shares of 50p each. As a result 3,478,260 Ordinary shares were issued.

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found in the Report of the Directors on pages 12 to 16. 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	Floating	Fixed	Non-
	£'000	rate	rate	interest
		£'000	£'000	bearing
				£'000
As at 30 June 2004	76,210	27,210	49,000	–
As at 30 June 2003	54,200	15,200	39,000	–

The fixed rate profile above consists of:

	Fixed interest	
	rate per	Maturity
	annum	
	%	
£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
£10 million interest rate swap*	5.14	April 2006

* In addition to the fixed rate a variable margin, currently a weighted average of 0.8112% per annum, is charged.

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

	Start	Fixed	
	date	interest	Maturity
		rate per	
		annum	
		%	
£10 million interest rate swap	July 2004	5.03	July 2014
£15 million interest rate swap	April 2006	5.14	July 2006
£20 million interest rate swap	July 2006	5.14	March 2007
£10 million interest rate swap	March 2007	5.20	March 2013

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

	Fixed rate Weighted average interest rate %	Weighted average period for which rate is fixed years
As at 30 June 2004	6.25	2.84
As at 30 June 2003	6.32	4.12

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 2004	6,604	2,549	4,055	–
As at 30 June 2003	3,002	2,573	429	–

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 11.28% (2003: 11.27%), 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 27 years (2003: 28 years).

Fixed rate financial assets in the sum of £2,466,000 (2003: £2,480,000) mature in more than five years. The floating rate financial assets mature in less than one year.

Maturity of financial liabilities	2004 £'000	2003 £'000
-----------------------------------	---------------	---------------

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

In more than two years, but no more than five*	72,210	50,200
In more than five years	4,000	4,000
	<u>76,210</u>	<u>54,200</u>

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

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

Borrowing facilities

During the year the Company entered into £30 million of new term loan commitments. Total available facilities at 30 June 2004 amounted to £95 million (2003: £65 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:

	2004 £'000	2003 £'000
Expiring in one year or less	10,000	10,000
Expiring in more than one year but not more than two years	–	–
Expiring in more than two years	12,790	4,800
	<u>22,790</u>	<u>14,800</u>

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

Fair values of financial assets and financial liabilities

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

	Book value 2004 £'000	Fair value 2004 £'000	Book value 2003 £'000	Fair value 2003 £'000
Primary financial instruments:				
Long term borrowings	(76,210)	(76,210)	(54,200)	(54,200)
Convertible loan stock	(4,000)	(8,522)	(4,000)	(6,226)
Long term debtors	2,549	5,455	2,573	5,696
Cash	709	709	418	418
Development loans	3,346	3,346	11	11
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	–	715	–	(1,670)

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 £2.45 (2003: £1.79) at the year end. The fair value of the net investment in finance leases has been determined by the Directors by discounting the future receipts from those leases at the Group's current cost of capital.

Notes to the Financial Statements (continued)

13 Derivatives and other financial instruments (continued)

Hedging strategy

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

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

	Gains £'000	Losses £'000	Total £'000
Gains and losses unrecognised as at 30 June 2004	<u>841</u>	<u>(126)</u>	<u>715</u>
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2005	<u>85</u>	<u>(139)</u>	<u>(54)</u>
Gains and losses included in the profit and loss account that arose in previous years	<u>3</u>	<u>(494)</u>	<u>(491)</u>
Gains and losses unrecognised as at 30 June 2003	<u>–</u>	<u>(1,670)</u>	<u>(1,670)</u>
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2004	<u>–</u>	<u>(599)</u>	<u>(599)</u>
Gains and losses included in the profit and loss account that arose in previous years	<u>–</u>	<u>(439)</u>	<u>(439)</u>

14 Called up share capital	2004		2003	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of 50p each	<u>40,000,000</u>	<u>20,000</u>	<u>40,000,000</u>	<u>20,000</u>
Issued and fully paid at 50p each	<u>18,147,133</u>	<u>9,074</u>	<u>16,716,977</u>	<u>8,358</u>

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 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 2003 these conditions had been met.

Notes to the Financial Statements (continued)

14 Called up share capital (continued)

On 17 September 2003, NPMS and JOHCM exercised their option to subscribe for 960,000 and 426,667 shares respectively (JOHCM had previously exercised their option to subscribe for 213,333 shares on 28 November 2002) at the subscription price of £1 per share, leaving no management options outstanding under the 1996 Management option agreement. Pursuant to the terms of a further option agreement between the Company, NPMS and JOHCM, NPMS and JOHCM were granted options over 1,120,000 and 460,000 ordinary shares respectively, at a subscription price of 171 pence per share.

Further details are given on pages 14 and 15 of the Report of Directors. Conditions of the option exercise have been met at 30 June 2004.

In respect of the final dividend for the year ended 30 June 2003, and the interim dividend for the year ending 30 June 2004, Shareholders were offered the opportunity to receive Ordinary shares in lieu of the cash dividend. Respectively, 233 and 274 holders of a total of 960,715 and 925,280 shares elected to receive shares instead of a cash dividend resulting in the issue of 43,489 new Ordinary shares.

15	Share premium account	2004		2003	
		Group £'000	Company £'000	Group £'000	Company £'000
	Balance at beginning of year	6,689	6,689	6,563	6,563
	Premium on issue of 50p Ordinary shares following exercise of options	693	693	107	107
	Premium on issue of 50p Ordinary shares in lieu of cash dividend	78	78	24	24
	Issue expenses	(1)	(1)	(5)	(5)
	Balance at end of year	<u>7,459</u>	<u>7,459</u>	<u>6,689</u>	<u>6,689</u>
16	Capital reserve	2004		2003	
		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			2004	2003
				Group	Group
				£'000	£'000
	Balance at beginning of year			20,253	12,756
	Uplift in valuation during the year			<u>10,050</u>	<u>7,497</u>
	Balance at end of year			<u>30,303</u>	<u>20,253</u>

Notes to the Financial Statements (continued)

18 Profit and loss account	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning of year	991	802	709	452
Retained profit for the year	404	321	460	350
Share of operating profit/(loss) in joint venture	4	–	(178)	–
Balance at end of year	<u>1,399</u>	<u>1,123</u>	<u>991</u>	<u>802</u>

At the year-end, the Company's distributable reserves included with the profit and loss account above, were £270,000 (2003: £116,000).

19 Reconciliation of shareholders' funds	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening Shareholders' funds	37,909	17,467	29,889	16,876
Increase in revaluation reserve	10,050	–	7,497	–
Profit for the year	2,472	2,385	2,131	2,021
Share of operating loss in joint venture	–	–	(178)	–
Dividends paid and proposed	(1,995)	(1,995)	(1,671)	(1,671)
Additional final dividend 2003*	(69)	(69)	–	–
Gross proceeds from issue of Ordinary shares	1,487	1,487	246	246
Expenses on issue of Ordinary shares	(1)	(1)	(5)	(5)
Closing Shareholders' funds	<u>49,853</u>	<u>19,274</u>	<u>37,909</u>	<u>17,467</u>

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

20 Net asset value per share	2004	2003
	pence	pence
Ordinary share – basic	274.72	226.77
– diluted	243.65	200.61

The basic net asset value per Ordinary share is based on net assets attributable to Ordinary Shareholders of £49,853,000 (2003: £37,909,000) and on 18,147,133 (2003: 16,716,977) shares, being the number of shares in issue at the year end.

Notes to the Financial Statements (continued)

20 Net asset value per share (continued)

Diluted net asset value per share is calculated as follows:

	2004	2003
	£'000	£'000
Net assets:		
Per Consolidated Balance Sheet	49,853	37,909
Add – Loan Stock conversion	4,000	4,000
– Receipts from the exercise of options	2,736	1,387
	<u>56,589</u>	<u>43,296</u>
	2004	2003
Ordinary shares:		
Issued share capital	18,147,133	16,716,977
Add – Loan Stock conversion into shares	3,478,260†	3,478,260†
– New shares issued on exercise of options	1,600,000	1,386,667
	<u>23,225,393</u>	<u>21,581,904</u>

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

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

21 Total return per share

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

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

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

Notes to the Financial Statements (continued)

22 Notes to the statement of cash flow

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

	2004	2003
	£'000	£'000
Operating profit	5,923	5,312
(Increase)/decrease in operating debtors and prepayments	(289)	272
Increase in operating creditors and accruals	533	332
Net cash inflow from operating activities	<u>6,167</u>	<u>5,916</u>

(b) Analysis of net debt

	Opening	2004 Cashflow	Closing
	£'000	£'000	£'000
Cash at bank	418	291	709
Bank loans	(50,200)	(22,010)	(72,210)
Convertible loan stock	(4,000)	–	(4,000)
	<u>(53,782)</u>	<u>(21,719)</u>	<u>(75,501)</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 £18.2 million plus VAT (2003: £13.3 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 £24.2 million (2003: £14.5 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 33 and 34, and note 14 on pages 42 and 43.

26 Post Balance Sheet events

On 19 August 2004, the Royal Bank of Scotland converted its £4.0 million Convertible Loan Stock March 2016. This has resulted in the issue of 3,478,260 Ordinary Shares of 50p each. These shares will not rank for the final dividend for the year ended 30 June 2004.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Primary Health Properties PLC will be held on 18 November 2004 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 2004;
2. To declare a final dividend of 5.5p per share;
3. To receive the Directors' Remuneration Report;
4. To re-elect Mr H A Hyman as a Director of the Company;
5. To re-elect Mr P Sandford 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 £3,604,232 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 £540,634;

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

Notice of Annual General Meeting (continued)

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 2,162,539;
 - (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.
10. THAT the Articles of Association be amended by the following:
- (a) THAT Article 102 be amended by the deletion of the figure “70” and substitution of “75”;
 - (b) THAT Article 2.1 be amended by the inclusion of the following in the definitions:

“electronic address”
means, but is not limited to, any number or address used for the purposes of electronic communications;
 - (c) THAT the wording “instrument appointing” in each of Articles 75, 76, 77 and 78 be deleted and substituted with the words “appointment of”;
 - (d) THAT Article 76 be amended by the insertion of the words “or contained in an electronic communication” at the end of the first sentence;
 - (e) THAT the existing Article 79 be deleted and the following substituted:
 79. The appointment of a proxy and the power of attorney or other authority, if any, under which it is executed, or a copy of the authority notarially certified, or certified in some other way approved by the Board, shall be:
 - 79.1 in the case of an instrument in writing, received at such place as may be specified for that purpose in the notice convening the meeting or in any form of appointment of proxy sent out by the Company in relation to the meeting or if no place is so specified at the Office at least 48 hours before the time fixed for holding the meeting or adjourned meeting or the taking of a poll at which the person named in the instrument proposes to vote; or
 - 79.2 in the case of an appointment contained in an electronic communication, where an electronic address has been specified for the purpose of receiving electronic communications:
 - (i) in the notice convening the meeting; or
 - (ii) in any form of appointment of proxy sent out by the Company in relation to the meeting; or

Notice of Annual General Meeting (continued)

- (iii) in any invitation contained in an electronic communication to appoint a proxy issued by the Company in relation to the meeting, be received at such electronic address at least 48 hours before the time fixed for holding the meeting or adjourned meeting or the taking of a poll at which the person named in the appointment proposes to vote; or
- 79.3 in the case of a meeting adjourned for less than 28 days but more than 48 hours or in the case of a poll taken more than 48 hours after it is demanded, received as required by Articles 77.1.1 and 77.1.2 at least 24 hours before the time fixed for the holding of the adjourned meeting or the taking of the poll; or
- 79.4 in the case of a meeting adjourned for not more than 48 hours or in the case of a poll not taken immediately but taken not more than 48 hours after it was demanded, received at the adjourned meeting or at the meeting at which the poll was demanded by the chairman of the meeting or by the Secretary or by a Director.
- 79.5 The appointment of a proxy not received in accordance with this Article 79 is invalid.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
16 September 2004

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 16 November 2004 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	24 September 2004
Ex-dividend date	22 September 2004
Payment date	25 November 2004

Scrip Dividend Calendar for Final Dividend for year ended 30 June 2004

Posting of forms of election	6 October 2004
Final date for receipt of forms of election	28 October 2004
Despatch dividends payable, dividend warrants and definitive shares certificate	25 November 2004
Dealings expected to commence in new Ordinary shares	25 November 2004

Annual General Meeting

The Company's Annual General Meeting will be held on 18 November 2004 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.

Shareholder Information (continued)

Share Price

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

Share Dealing

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

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

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

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

General Information About the Company

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

Corporate Profile

Directors

G A Elliot (Chairman)
H A Hyman (Managing Director)
A D S Dalglish (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
1 More London Place
London SE7 2AF

Company Secretary and Registered Office

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

Bankers

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

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Derby Road Health Centre, Lenton, Nottinghamshire
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Winchcombe Medical Centre, Winchcombe, Gloucestershire
Completion of New Development for a 3 GP Practice and Pharmacy



Warley Medical Centre, Oldbury, West Midlands
Completion of New Development for a 7 GP Practice and Pharmacy

PRIMARY HEALTH PROPERTIES PLC

for further information contact:-

Harry Hyman or Adam Dalglish at PHP

01483 306912 or visit the PHP Website

www.phpgroup.co.uk