Primary Health Properties PLC

Annual Report

for the year ended
31 December 2009

The Glen Primary Care Centre
Hebburn, Tyne and Wear
2,100 sq m, purchased June 2007 at a cost of £5.2m

A new purpose built primary care facility centre near Newcastle, Tyne and Wear, let for occupation by two GP Practices, the local PCT and a Pharmacy. The centre was developed by a private developer in 2007.

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Cover picture: Port Talbot Resource Centre, Port Talbot

Results Highlights

Group Financial Highlights

Successful capital raisings of £60.7million net of expenses

Payment of 17p of dividends during the year

8.75p second interim dividend for 2009 declared and payable on 26 March 2010

Operating profit before revaluation result and fair value gain/loss on derivatives rose from £4.7million to £7.9million

Loan to Value ratio reduced to 49% at 31 December 2009 against covenant of 70%

Basic net asset value increased to 247.2p per share (31 December 2008 (adjusted): 226.7p)

EPRA net asset value of 279.9p per share (31 December 2008 (adjusted): 272.9p)

Borrowing facilities not due for renewal until 2013

Group Operating Highlights

Continued success of our strategy of investing in modern purpose built healthcare centres

Increase in the portfolio from £316.9million to £341.9million

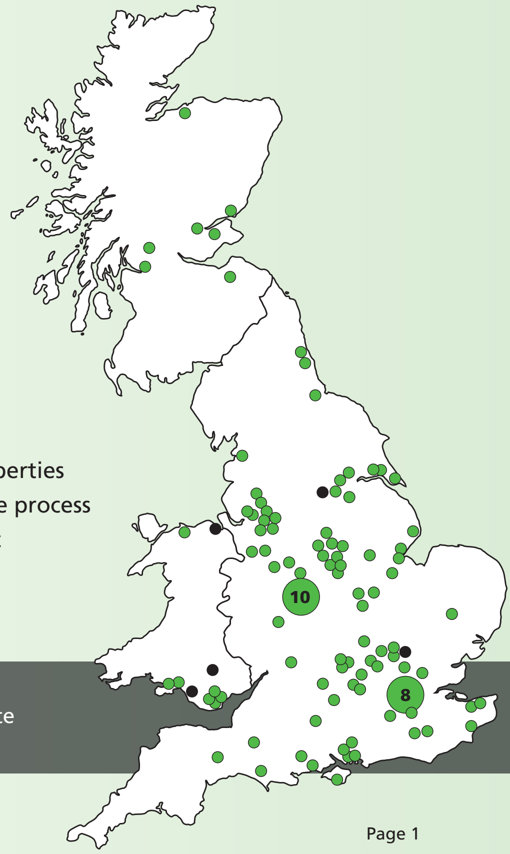
Rental growth of approximately 3.12% per annum

Rent roll at year end of £21.3million

Important decision achieved on rent review appeal process during the year

Portfolio 100% let

Portfolio including commitments valued at £371million as at 31 December 2009 on an initial yield of 6%



PHP's properties
PHP has 112 completed properties and five in the course of development. Visit the Group's website **www.phpgroup.co.uk** for more information on properties contained within the portfolio.

Operating and Financial Review

Overview

As reported during 2009, the challenging economic environment continued to have a negative impact on the value of commercial property. However, the niche primary care market in which we operate still has good fundamentals and there is continued demand for the provision of modern primary health care facilities, from both tenants and investors. The Group has an excellent portfolio of modern properties with secure long leases and high quality tenants, backed by the Government. Our buildings are all used in the delivery of primary care, which is in the front line of delivery of NHS services. Spending on healthcare through the NHS remains at the heart of the Government's and the Opposition's policy agendas. The medium term outlook for rental growth prospects is also enhanced by the High Court judgment in March 2009 which will encourage a fairer, more robust and more transparent system for reviewing rent.

The Board remains committed to increasing the Group's portfolio on a prudent basis, actively managing assets through refurbishment, enhancement and redevelopment, increasing revenue from existing leases and delivering returns for Shareholders. We believe that the business is well positioned and we remain confident in the prospects for the Group.

Trading performance

An analysis of the trading performance for the year ended 31 December 2009 is set out below:

	Year to 31 December 2009 £m	**Restated Year to 31 December 2008[2] £m**
Annualised rent roll [1]	**21.3**	19.6
Operating profit before revaluation result and financing	**18.0**	15.2
Net financing costs	**(10.1)**	(10.5)
Operating profit before revaluation result and fair value gain/(loss) on derivatives	**7.9**	4.7
Fair value gain/(loss) on derivatives	**1.3**	(10.7)
Revaluation gain/(loss) on property portfolio	**1.6**	(17.7)
Profit/(loss) before tax	**10.8**	(23.7)
Dividends paid	**5.8**	5.5

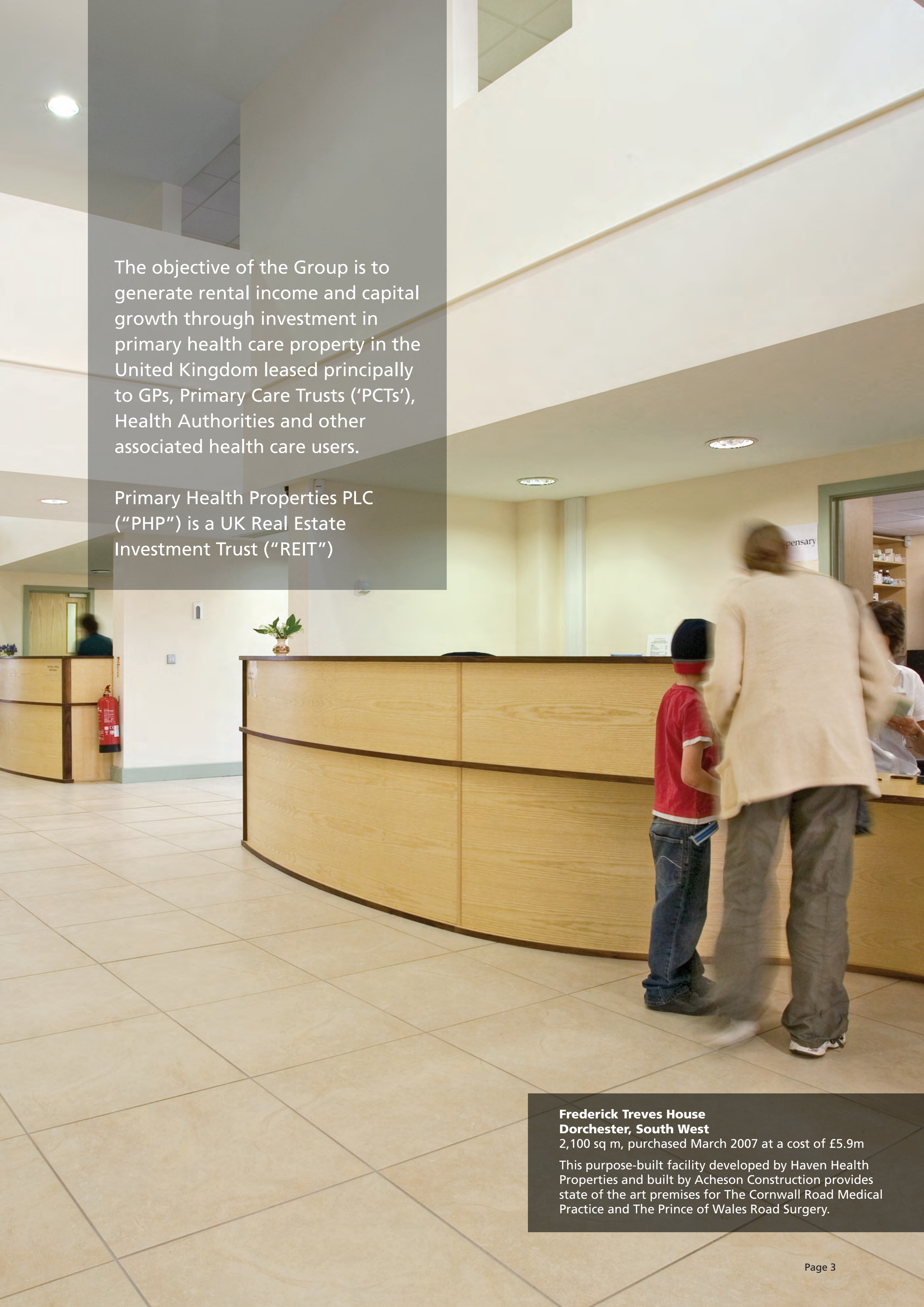
1 On completed properties

2 Restated as described in note 2.1 to the financial statements

High Court verdict

On 31 March 2009, the Group announced that, in a landmark judgment in the High Court, it had made a successful challenge to the dispute resolution procedures to be followed when determining the level of rent to be reimbursed by the Department of Health for GPs' leasehold premises.

The Board believes that this will lead to a fairer, more robust and more transparent system for reviewing rent and is likely to improve the Group's rental growth prospects over time.



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

Primary Health Properties PLC (“PHP”) is a UK Real Estate Investment Trust (“REIT”)

Frederick Treves House
Dorchester, South West
2,100 sq m, purchased March 2007 at a cost of £5.9m

This purpose-built facility developed by Haven Health Properties and built by Acheson Construction provides state of the art premises for The Cornwall Road Medical Practice and The Prince of Wales Road Surgery.

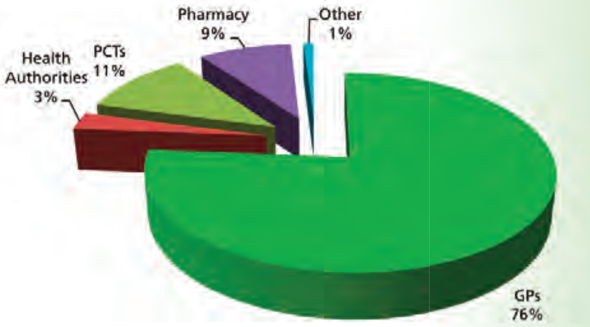
Operating and Financial Review continued

Rental growth

The achieved increase on rental review of leases agreed in the year to 31 December 2009 was 9.37% over three years (equivalent to 3.12% per annum) compared with 12.35% over three years (equivalent to 4.12% per annum) reported in 2008. Rental growth, although not formally linked to inflation, is likely to be subdued in a low inflation environment. However, the Joint Managers believe that increased specification, where new buildings have a much higher specification due to the need for higher energy efficiency and reduced carbon footprint requirements in the NHS, is driving replacement costs higher which are important criteria in justifying higher rent.

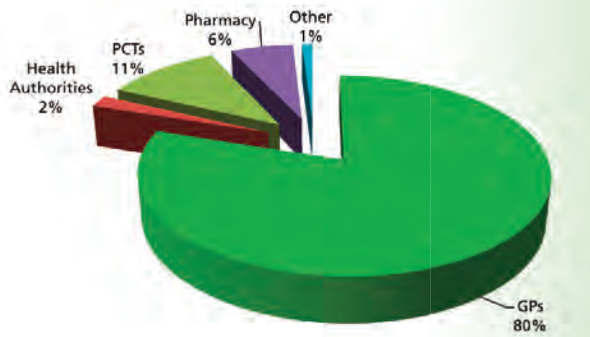
Analysis of annualised rent by tenant

The chart shows the percentage of the Group's portfolio by rent roll derived from each major tenant class: GPs, PCTs, Health Authorities, pharmacy operators and others. Some 99% of rent comes directly or indirectly from GPs, PCTs, Health Authorities and pharmacy operators.



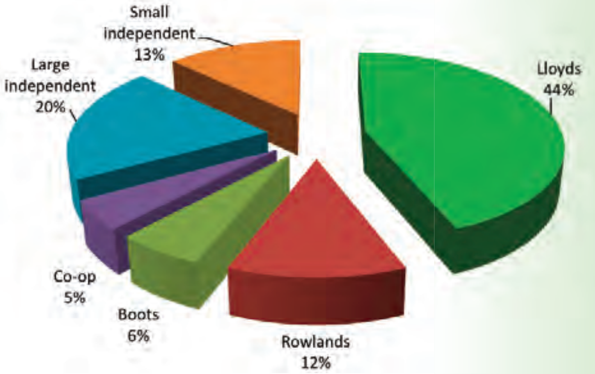
Tenancy split by floor area

The chart indicates tenancy split by floor area (psm).



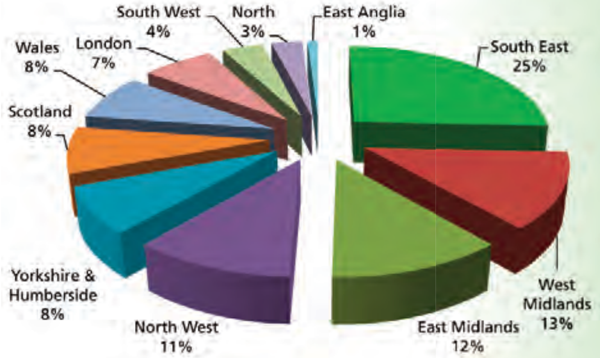
Analysis of rental income by pharmacy operator

The chart shows the breakdown of the 9% of total rent received from pharmacy operators by well known brands (67%), large independents with over five units (20%) and small independents with five or less units (13%).



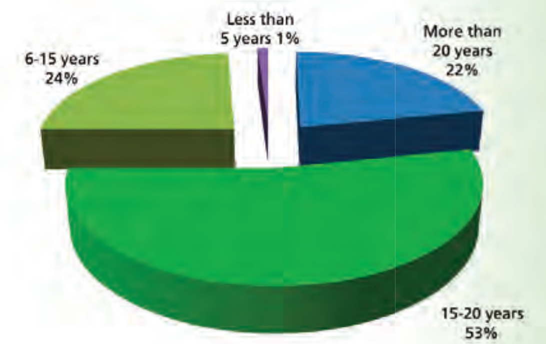
Analysis of rental income by geographic region

The chart shows the percentage split of rental income by geographic region.



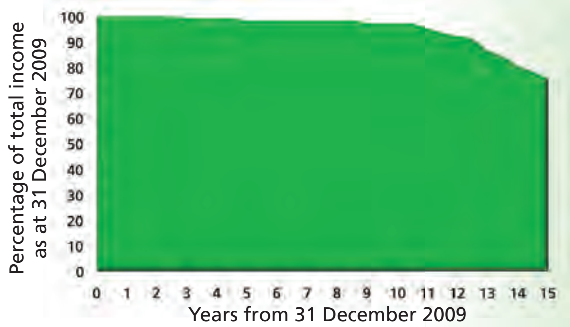
Analysis of annualised rent by unexpired lease term

The chart demonstrates that the Group has in excess of 75% of leases with a life of 15 years or longer.



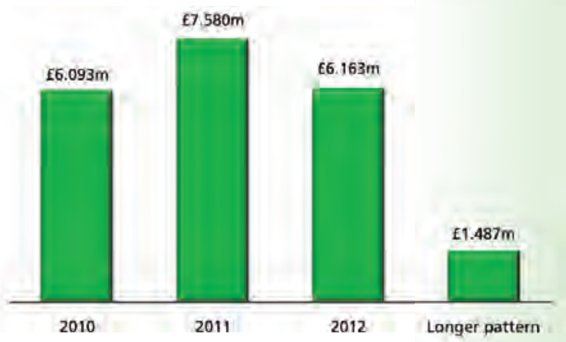
Security of income by term certain

The chart shows that by year 10, the Group would still be receiving 94% of its current income and by year 15, 72%, taking no account of any lease renewals or rent reviews during the period.



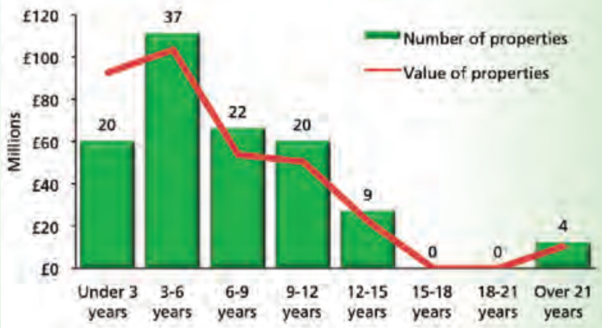
Forthcoming rent reviews

The chart shows the annual amounts of rent falling due for review in each of the next three years. £1.5million of rent is reviewed on a longer pattern and £685,000, included in the first column for 2010, is reviewed annually.



Analysis of portfolio by age of buildings

The chart shows a breakdown of the portfolio by value and number of assets in age groupings. The few older buildings have all been subject to extensive refurbishment within the last 15 years. Approximately 75% of the portfolio comprises purpose built health centres which are under nine years old and around 97% of the properties are under 15 years old.



Operating and Financial Review continued

Acquisitions and disposals

The Group purchased the following properties during the year ended 31 December 2009. There were no disposals during the year.

Property	Acquisition cost £m	Occupational tenants
The Forest Surgery, Hugglescote	2.7	GP practice and pharmacy
Firdale Medical Centre, Sale	4.2	GP practice and pharmacy
Port Talbot Resource Centre, Port Talbot (p. 13)	15.9	GP practice and pharmacy

Commitments

Commitments may be analysed as follows:.

Property	New commitments in 2009 £m	Total outstanding commitments £m	Occupational tenants
Cowbridge Medical Centre, Vale of Glamorgan	6.9	5.6	GP practice and PCT accomodation
The Sloan Practice Medical Centre, Sheffield	2.9	1.7	GP practice and pharmacy
The New Shefford Health Centre, Shefford	5.5	5.2	GP practice and PCT accomodation
Total new commitments	15.3	12.5	
Connahs Quay[1]		9.3	
Treharris[1]		4.3	
Total commitments		26.1	

1 Initial commitment in 2008.

Portfolio

The table below sets out the portfolio as at 31 December 2009.

	31 December 2009 £m	31 December 2008 £m
Investment properties	**338.4**	314.4
Properties in the course of development	**3.5**	2.5
Total properties	**341.9**	316.9
Finance leases	**3.0**	3.0
Total owned and leased	**344.9**	319.9
Development loans	**-**	0.3
Total owned and leased (including development loans)	**344.9**	320.2
Committed	**26.1**	34.0
Total owned, leased and committed	**371.0**	354.2
Closing annualised rent roll (on completed properties)	**21.3**	19.6

Property valuation

The freehold, leasehold and development properties of the Group have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers ("LSH"), as at 31 December 2009.

At the year end they reflected a 6.00% initial yield and 6.24% true equivalent yield compared with 5.97% initial yield and true equivalent yield of 6.16% at the end of the previous year. This compares with 30 June 2009 which showed an initial yield of 6.06% and a true equivalent yield of 6.25%.

Discounted cash flow property valuation

In addition to the market value exercise performed by LSH, the Joint Managers monitor the value of the Group's completed investment portfolio based on a discounted cash flow ("DCF") analysis. The DCF valuation of delivered assets as at 31 December 2009 was £368million compared to the market value of £342million, including properties in the course of development (31 December 2008: DCF valuation of £367million compared to the market value of £316million). The difference of £26million as at 31 December 2009 represents an additional 42.3p of net asset value per share.

The assumptions used in the DCF analysis are:

- A discount rate of 7% (2008: 7%);
- An average annual increase in the individual property rents at review of 2.5% (2008: 3%);
- Capital growth in residual values of 1% (2008: 1%) per annum; and
- In the case of each property, the DCF analysis is over the remaining period of the lease at 31 December 2009.

Comparative values using the discount rates below are as follows:

Discount rate	Value
6.50%	£387.2m
7.50%	£349.2m

Portfolio performance

The Investment Property Databank recently launched the IPD Healthcare Property Index and our portfolio is a founder constituent of the index. This demonstrated the robust nature of the sector when compared to the wider commercial property market.

Performance for year ended 31 December 2008 (latest available data)	
PHP Portfolio total return	-0.5%
IPD Healthcare Property Index total return	-4.6%
IPD All Property Index total return	-22.1%

Net assets and EPRA NAV

Net assets have increased significantly as a result of the capital raisings during the year.

	31 December 2009	31 December 2008
Net assets	**£151.92m**	£78.29m
Net asset value per share	**247.2p**	226.7p[2]
EPRA net asset value per share [1]	**279.9p**	272.9p[2]

1 EPRA net asset value is calculated as balance sheet net assets including the valuation result on trading properties, excluding fair value adjustments for debt and related derivatives ("EPRA" is the European Public Real Estate Association).

2 The NAV per share is based on the restated audited consolidated balance sheet of the Group, as adjusted to illustrate the capital raisings which occurred in 2009, as if those events had been completed on 31 December 2008.

Operating and Financial Review continued

Borrowings

At 31 December 2009, Group borrowings were £167million in aggregate. At the year end date, aggregate facilities were £265million of which £255million was on a term loan basis and £10million available on an overdraft basis. Taking into account further commitments of £26.1million, there was £71.9million of committed headroom available for the Group to continue with its acquisition policies. The term facilities are not due for renewal/replacement until 2013. The Board is satisfied with the pricing and term of its existing facilities.

The capital raised during the year has initially been applied to reduce borrowings.

The loan to value ratio at 31 December 2009 was 49% compared to a maximum covenanted level of 70% in March 2010. Interest cover was 2.2 times compared to a minimum covenanted level of 1.3 times.

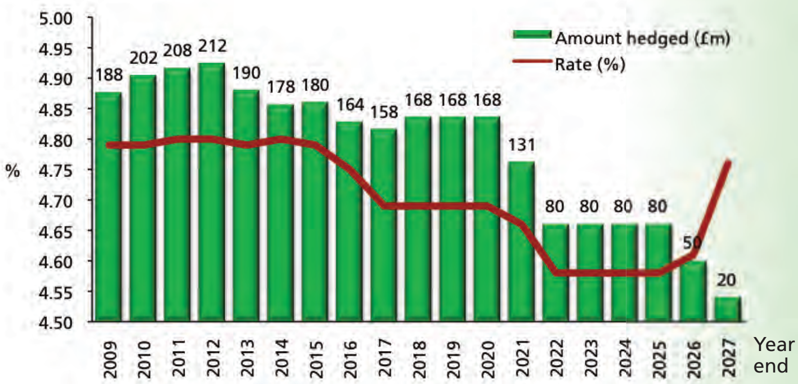
Hedging

The amount of fixed rate cover in place at 31 December 2009 (including £88million of callable swaps) was £183million. Basis rate swaps totalling £200million were also in place during the year but matured on 11 February 2010 and contributed £470,000 to the 2009 profits.

All swaps are taken out in order to mitigate exposure to interest rate risk, but under accounting rules only certain swaps qualify as "effective" hedges and the mark to market movement on these is matched against the hedged liability in the Balance Sheet. Due to the rise in money market rates during the year to 31 December 2009, the value of the Group's "effective" interest rate swaps increased by £7.7million (12.5p per share), partially offsetting losses recorded in previous periods. This gain goes directly to equity but is included in the total comprehensive income result on page 38. The revaluation of swaps regarded as ineffective for IAS39 purposes was also a gain of £1.3million (2008: loss of £10.7million), which is included in the profit for the year. These gains were a significant factor in the uplift in the net asset value from 226.7p to 247.2p. The revaluation gain on ineffective swaps included a gain on the callable swaps of £1.7million (31 December 2008: loss of £11.1million). The mark to market value fluctuates with movements in term interest rates, and in the case of the callable swaps, with market volatility. The improvement in the value of all swaps reflects the increase in medium term interest rates and, as in prior periods, the movement in value does not affect cash flows.

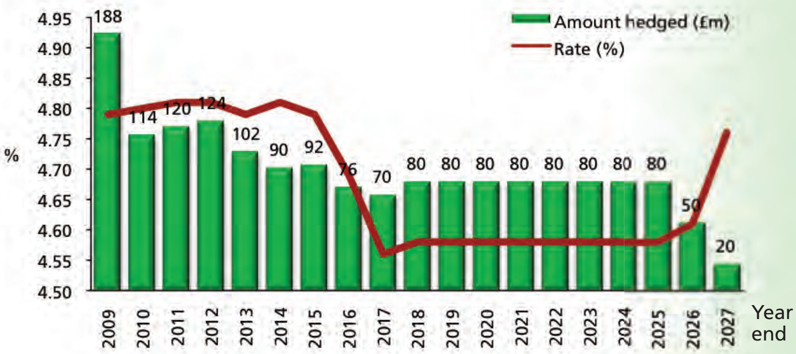
Finance and interest rate hedging (assuming callable swaps are not called)

This chart shows the level of bank borrowings economically hedged by interest rate swaps for each financial year to 31 December 2027.
Shown in £million.[1]



Finance and interest rate hedging

This chart shows the level of bank borrowings covered by effective hedges for each financial year to 31 December 2027.
Shown in £million.[1]



1 The charts above show the weighted average amount hedged throughout each financial year for the period to 31 December 2027. The charts assume that the term loans to the Group which expire in 2013 will be renewed.

Revenues and administration expenses

At a trading level, revenues for the year ended 31 December 2009 rose to £21.3million as a result of new deliveries and favourable rent reviews. Operating profit before revaluation result and fair value gain on derivatives was £7.9million. Adminstration expenses were slightly lower during the year mainly due to lower management fees.

Management fees and performance incentive scheme

Details of management fees payable to the Joint Managers are shown in note 4 to the financial statements.

There is no performance incentive fee payable to the Joint Managers for the year ended 31 December 2009 (year ended 31 December 2008: £Nil).

There is a deficit of some £57million (2008: deficit of £74million) to be made up in the net asset value before any further performance incentive fee becomes payable under the terms of the Management Agreement.

Capital raising

On 24 March 2009, the Group raised £3.7million gross (£3.3million net of expenses), by way of a placing of 1,679,354 new ordinary shares of 50p each at a price of 220p per placing share (the "Placing"). This Placing was taken up by institutional and other investors. The proceeds were used for general working capital purposes.

On 7 October 2009, PHP issued 26,086,956 new ordinary shares by way of a Firm Placing and Placing and Open Offer at a price of 230p per share, raising approximately £60million gross (£57.4million net of expenses). The net proceeds of the fundraising have been used initially to reduce the Group's net indebtedness. The Group intends to make selected acquisitions of medical properties to expand its property portfolio which will be funded, in part, by redrawing those elements of the Group's bank facilities that can be redrawn.

Interim dividend

Interim dividends per ordinary share were paid during the year ended 31 December 2009 on 15 April 2009 (8.5p) and 20 November 2009 (8.5p). In order to accelerate dividend payments to Shareholders, instead of a final dividend, the Board announced on 11 February 2010 the payment of a second interim cash dividend of 8.75p per ordinary share in respect of the year ended 31 December 2009 to Shareholders on the register of members on 19 February 2010 for payment on 26 March 2010 in the current tax year. Further details of the Group's tax status and distributions to Shareholders are given on pages 21 and 89. The Group's policy is to pay a minimum of 90% of the profits of its tax exempt business in dividends in accordance with UK REIT Regulations.

Operating and Financial Review continued

Scrip Dividend Scheme

At the Company's general meeting held on 6 October 2009, Shareholders granted authority to the Directors to implement the Scrip Dividend Scheme in respect of future cash dividends. Shareholders will be offered the opportunity to receive the second interim cash dividend in respect of the year ended 31 December 2009 in new ordinary shares and a circular and scrip mandate form will be posted on 2 March 2010. The final date for the receipt of the scrip mandate forms (if Shareholders have not already signed one for future dividends and wish to take shares instead of the interim cash dividend) is 16 March 2010.

On 16 November 2009, 103,894 new ordinary shares of 50 pence each were allotted and issued in lieu of the interim cash dividend for the six months ended 30 June 2009 under the Scrip Dividend Scheme. Admission to the Official List of the UK Listing Authority of the new ordinary shares was effective on 20 November 2009.

Key performance indicators ("KPIs")

Objective	Metric	Performance
To create sustainable long-term rental income and capital growth for shareholders	• Sustained real growth in EPS • Annual revenue to exceed budget target • Sustained dividend growth	• Adjusted EPS rose from 14.0p to 18.4p • Turnover rose to £21.3m • Dividend grew for tenth year to 17p per share 3.0% higher than in 2008 • Successful establishment of robust rent appeal process
To maximise the returns from the investment portfolio	• Out-performance versus IPD benchmark	• Basic NAV grew from 226.7p to 247.2p. • Performance was better than the IPD benchmark • Rental increases of the equivalent of 3.12% per annum were achieved in 2009
To generate long term value for Shareholders	• Growth in NAV • Growth in dividends	• Basic NAV increased from 226.7p to 247.2p • Dividend grew from 16.5p to 17p
To manage our balance sheet effectively	• Maintain appropriate balance between debt and equity within covenanted levels	• £60.7m of capital raised, reducing gearing to 49%
To identify new units to purchase	• Future commitments • Deliveries	• Deliveries during the year were £21.1m • New commitments of £15.3m were entered into during the year • Board approval was given to new purchases of £34.5m completed in the period between the year end and the date of this report
To complete and let properties under the course of development	• Growth in annualised rent roll	• New deliveries added £1.3m of rent to the rent roll • The portfolio was 100% let at the year end
To maintain good quality leases	• Long average lease term • Maintain a minimal percentage of voids	• Weighted average lease length of 17.3 years • Portfolio 100% let • 90% of income effectively paid for by the NHS

Principal risks and uncertainties

In common with most businesses, the Group is affected by a number of risks and uncertainties, not all of which are wholly within the Group's control. These principal risks and uncertainties are summarised below. The Board has reviewed and agreed policies for managing each of the risks:

Risk description	Impact/Risk	Mitigation
Capital adequacy	• Unable to counteract the impact of fluctuating property values on the Group's balance sheet • Inability to invest in suitable property on favourable terms to enable expansion	• Capital raisings strengthened the Group's balance sheet • Liquidity and gearing are kept under constant review
Liquidity risk	• Inability to fund operations and capital expenditure programme • Restrictive covenant regime • Limited market debt capacity • Inability to raise sufficient new funding • Breach of covenants and LTVs	• Board approves an annual plan setting out expected financial requirements • Majority of borrowing matures in more than 12 months • Covenant and LTV ratio actively monitored • Commitments not wholly taken up
Interest rate risk	• Increased borrowing costs • Market risk exposure through interest rates and availability of credit	• Borrowings on a variable basis but interest rate risk is mitigated through use of swaps • All borrowing is in Sterling
Tax risk	• Increased taxes payable as a result of Government policy changes • Compliance with the Real Estate Investment Trust (REIT) taxation regime	• On-going monitoring and management of the criteria to meet UK-REIT status
Occupier market conditions	• Downturn in primary care market and demand for specialist portfolios • Government changes primary care initiative and policies • Threat of voids in the portfolio • Prolonged downturn in tenant demand	• No sign of policy changes from any of the major political parties • 100% of the portfolio let • Demographics increasing demand for healthcare facilities • Effectively upwards only rent reviews and weighted average lease length of some 17.3 years
Market cycles	• Risk of falling property values	• Target ranges for balance sheet gearing • Secure income under UK lease structure
Property risks	• Asset value concentration • Poor performance of single asset having a material impact on the portfolio • Loss of value • Property deterioration	• No sign of policy changes regarding primary care • Multi-asset portfolio with long leases • Primarily let to the NHS • Properties predominately leased on tenant repairing leases. Properties regularly inspected and adequately insured
Retention of Joint Managers	• As the Group has no employees, operations would be adversely affected if the services of the Joint Managers were not available	• Contractual arrangements in place which are regularly reviewed by the Management Engagement Committee

Operating and Financial Review continued

Environmental matters

PHP specialises in the ownership of freehold or long leasehold interests in modern purpose-built healthcare facilities, the majority of which are leased to general practitioners and other associated healthcare users. The Board views the assessment of environmental risk as an important element of its due diligence process when it acquires land or purpose built properties. Before purchase, an environmental desk top study is carried out and energy efficiency certificates are obtained. PHP has engaged an Environmental Consultant, Collier & Madge, to help specifically in this process. PHP's ability to influence the energy efficiency of buildings is limited where ready built properties are acquired and let on FRI terms. However, the buildings acquired are generally specified to meet the NHS's exacting standards. PHP is committed to the principles of continuous improvement in managing environmental issues, including the proper management and monitoring of waste, the reduction of pollution and emissions and compliance with environmental legislation and codes of practice. PHP considers environmental matters as part of the assessment of the suitability of purchasing new state of the art medical centres to expand the portfolio, either through forward purchase development agreements or through open market purchases and if appropriate, environmental issues are included in the leases entered into by the medical practitioners.

Relationships

Other than Shareholders, the Group's performance and value are influenced by other stakeholders, principally its lessees (the PCTs, the GPs and healthcare users), the property developers, the District Valuers, lenders and the Joint Managers. The Group's approach to these relationships is based on the principle of mutual understanding of aims and objectives and the highest standards of ethics and business practice.

Social and community issues

The Group provides purpose built healthcare properties for use by GPs, PCTs, pharmacies and healthcare users thus indirectly benefiting the communities in which they are based.

Outlook

Spending on healthcare is driven by demographics as well as the growth of the economy. Primary care remains at the heart of the changes going on in healthcare in the UK. There remains a strong demand for larger purpose built primary care centres. We also see evidence of more institutional and corporate interest in the sector.

The underlying property portfolio remains attractive, particularly in today's market. It offers currently 100% occupancy with some 90% of the rent roll effectively being paid for by the Government and has an unexpired lease length of almost 18 years. We are also still recording rental increases. The new procedure for appeals has started to yield positive results.

Since the year end, we have completed the acquisition of £34.5million of properties being the Anchor Meadow Medical Centre, Aldridge, for £5.5million, a portfolio of fourteen medical properties for £24.2million from Care Capital Plc and two medical centres for £4.8million developed by the Abstract Group. These acquisitions will add approximately £2.1million to the annual rent roll. We have further deals totalling £10million in an advanced stage of negotiation, which we expect to announce shortly.

Given these continuing developments, a more positive outlook for commercial property generally and following our recent capital raisings, we look forward to providing a secure and attractive rate of return to our Shareholders.

Graeme Elliot
Chairman
24 February 2010

Acquisition Activity

Port Talbot Resource Centre, Port Talbot

This 25 GP Centre was developed by Haven Health Properties and delivered to PHP in September 2009. The £15.9million building provides services for 50,000 patients (through four GP Practices) and houses the local PCT Council as well as a café and a Pharmacy. The development provides a cost effective solution to updating the primary care facilities across Port Talbot.

Commitments

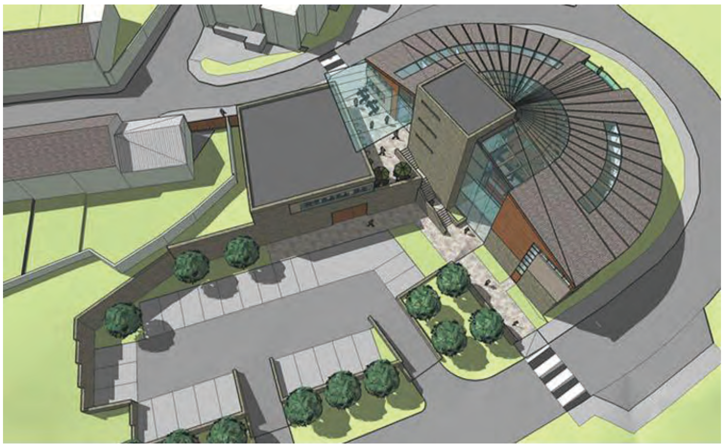
Cowbridge, Vale of Glamorgan

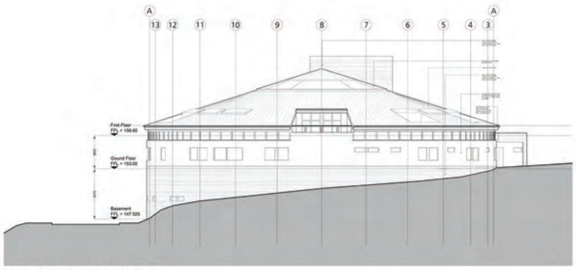
A development of a new Primary Care Centre in the town of Cowbridge, Vale of Glamorgan. The proposed centre will extend to approximately 2,450 sq m (GIA) to provide accommodation for the two practices currently based at the outdated Cowbridge Health Centre, together with accommodation for Bro Morgannwg NHS Trust. The centre is being developed by Brackley Investments and will cost PHP in the region of £6.9million once completed.

The project is expected to complete in September 2010.

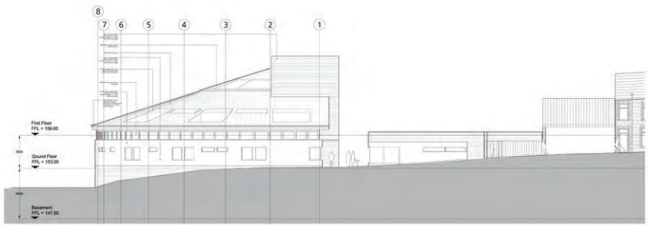
Treharris, Wales

A development of a new Primary Care Centre in Treharris (approximately 25 miles north of Cardiff) to replace the existing 1970s Health Centre. The new centre will have accommodation on three floors and will be the main facility for the provision of Primary Care services for Treharris and the surrounding area. It will house General Medical Services services (provided by the only Practice in Treharris), NHS dental services, Community Health services, voluntary services, a pharmacy and office accommodation for the Local Health Board. The centre is being developed by Haven Health Properties, and will cost PHP approximately £4.7million once completed. The project is expected to complete in March 2010.





NORTH EAST ELEVATION



NORTH WEST ELEVATION

SOUTH WEST ELEVATION

SOUTH EAST ELEVATION

Asset Management Opportunities

The Delamere Centre, Stretford

Asset Management has created better use of existing space at The Delamere Centre, Stretford through the renovation of an unused café. This has created additional consulting space to meet the expansion plans of the Practice, together with a larger Pharmacy to meet the tenants' requirements.

The leases have been reorganised at the centre between the three incumbent tenants (PCT, GP Practice and Lloyds Pharmacy). The project has created additional rental income for PHP of just under £10,000 per annum.

Blackthorn Health Centre, Hamble

A previously vacant suite of approximately 140 sq m (NIA) within the Blackthorn Health Centre, Hamble, has now been let to the local PCT for a term of 10 years. The new suite has been fitted out to the PCT's specification and provides the new regional rehabilitation team base.

The portfolio is now 100% let following this project.

Directors

Graeme Elliot [1,4]

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.

Alun Jones [1,2,3]

Appointed 1 May, 2007. Non-Executive Director and Senior Independent Director. Chairman of the Audit, Remuneration, Management Engagement and Nomination Committees. A Chartered Accountant, Mr Jones retired from PricewaterhouseCoopers LLP in 2006, where he had been a partner since 1981. His experience included acting as a senior audit partner, responsible for a number of public companies, with relevant experience in the property and medical sectors. He was also an elected member of the UK and global Supervisory Boards of Price Waterhouse and subsequently Deputy Chairman of the Supervisory Board of PricewaterhouseCoopers LLP UK Firm. He has been a member of the Financial Reporting Review Panel since 1 January 2006.

Harry Hyman [4,5]

Managing Director. Appointed February 1996. A Chartered Accountant and Corporate Treasurer, Mr Hyman is Managing Director of Nexus Group Holdings 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. Nexus PHP Management Limited (Joint Manager of PHP) is a subsidiary. He is also a non-executive director of a number of other companies including General Medical Clinics PLC and a director of the Quoted Companies Alliance. PHP has been a member of the Quoted Companies Alliance since 2002.

James Hambro [4,5]

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, Joint Manager and Company Secretary of Primary Health Properties PLC. He is also a director of Victory VCT PLC and Hansteen Holdings PLC.

Martin Gilbert

Non-Executive Director. Appointed May 1996. Mr Gilbert is a Chartered Accountant and chief executive of Aberdeen Asset Management PLC. He is Chairman of Aberdeen's Operating Subsidiaries. Operating Subsidiaries of Aberdeen Asset Management PLC are interested in 3.50% of the total voting rights of Primary Health Properties PLC. Mr Gilbert is also chairman of FirstGroup PLC, Chaucer PLC and a director of a number of investment trusts.

William Hemmings (alternate to Martin Gilbert)

Appointed by Martin Gilbert as his alternate director in March 2000. Mr Hemmings is Head of Investment Companies at Aberdeen Asset Managers Limited and a director of a number of subsidiary companies of Aberdeen Asset Management PLC.

Dr Ian Rutter O.B.E. [1 2 3]

Non-Executive Director. Appointed to the Board on 22 September 2005. Member of the Audit, Remuneration, Management Engagement and Nomination Committees. He has been a General Practitioner for 25 years with the Westcliffe Practice in Shipley, Yorkshire (previously First Wave and Total Purchasing Practice). He is currently the Senior European Faculty Head of IHI, the Institute of Healthcare Improvement, based in Boston, USA. He was, until January 2006, Chief Executive of North Bradford PCT, a Three Star Trust having previously won the Prime Minister's Award for excellence and which won the PCT of the Year in 2006. He is a former Clinical Advisor in the Policy & Strategy Directorate of the Department of Health and a former National Deputy Clinical Director for Primary Care. Former Joint Chief Executive Officer of Airedale PCT and North Bradford PCT, he has also worked as an associate of the Prime Minister's Delivery Unit and has worked at a senior level within the Department of Health and on committees such as Payment by Results. Dr Rutter retains an ongoing clinical commitment and was made O.B.E. for Services to Medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations.

Mark Creedy [1 2 3]

Non-Executive Director. Appointed to the Board on 1 November 2008. Member of the Audit, Remuneration, Management Engagement and Nomination Committees. Mr Creedy qualified as a Chartered Surveyor. He is currently Managing Director of Fund Management at UNITE Group plc overseeing the fund management of the UNITE UK Student Accomodation Fund and UNITE's other joint ventures. He was managing director of the property management subsidiary of Legal & General Investment Management from September 2002 until the end of 2007 and was previously managing director of Chartwell Land plc, a wholly owned subsidiary of Kingfisher plc from 1994 onwards. He was also a non-executive director of B&Q from 1998 until 2002. Mr Creedy has extensive experience in the UK property industry and was responsible for the creation and management of a number of sector specialist funds during his time at Legal & General.

1 Member of the Audit Committee
2 Independent
3 Member of the Management Engagement, Nomination and Remuneration Committees
4 Member of the Standing Committee
5 Joint Manager representative

Joint Managers

Nexus PHP Management Limited ('NPM')

NPM identifies suitable properties, negotiates the terms of purchase of those properties and provides property management services on behalf of the Group. It provides the services of the Managing Director. The Nexus Group of companies is engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors, with particular emphasis on health education and property.

J O Hambro Capital Management Limited ('JOHCML')

JOHCML (a wholly owned subsidiary of J O Hambro Capital Management Group Limited) provides administrative and accounting services to the Group and is Company Secretary. JOHCML provides investment management services to open ended investment companies, segregated mandates and other public funds. JOHCML is authorised and regulated by the Financial Services Authority in the conduct of its investment business.

Central Milton Keynes Medical Centre, Buckinghamshire

1,350 sq m, purchased December 2006 and extended in 2007 for a total cost of £4.8 million.

A modern purpose built medical centre, completed in 2004, housing an eight GP practice serving a patient list of arround 13,500, with adjacent pharmacy, dental practice and physiotherapy suite.

Group Directors' Report

The Directors present their report to Shareholders for the year ended 31 December 2009. All information in the Report and Financial Statements, to which this Directors' Report cross-refers, is incorporated by reference.

Principal activity

The principal activity of the Group is the generation of rental income and capital growth through investment in primary health care property in the United Kingdom. These properties are freehold or long-leasehold and are leased principally to general practitioners ("GPs"), Primary Care Trusts ("PCTs"), health authorities, pharmacies, dentists and other associated health care users.

Primary Health Properties PLC is the parent company of the Group. The Group is jointly managed by the Joint Managers.

As at 31 December 2009, the Group had 117 investment properties (112 completed and five in the course of development) with a gross asset value of approximately £342million generating a current annualised rent roll of approximately £21.3million.

Real Estate Investment Trust

The Group became a Real Estate Investment Trust ("UK-REIT") on 1 January 2007. In the opinion of the Directors, the Group has conducted its affairs so as to be able to continue as a UK-REIT.

Results

The profit after tax for the year ended 31 December 2009 amounted to £10.8million (year ended 31 December 2008: loss £23.9million).

Business review for the year ended 31 December 2009

The Companies Act 2006 requires the Company to set out in the Directors' Report a fair review of the business of the Group during the financial year ended 31 December 2009, including an analysis of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (the "Business Review").

The purpose of the Business Review is to enable Shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006. The information that fulfills the Business Review requirements can be found in the following sections of the Annual Report:

Operating and Financial Review	pages 2 to 12
Performance and KPIs	page 10
Principal risks and uncertainties	page 11
Social, environmental and ethical matters	pages 12

Pages 21 to 26 inclusive (together with the sections of the Annual Report incorporated by reference) comprise a Directors' Report that has been drawn up in accordance with, and in reliance upon, applicable English company law and the liabilities of the Directors in connection with this Report are subject to the limitations and restrictions provided by such law.

Valuation of the property portfolio

A valuation of the Group's property portfolio as at 31 December 2009 was carried out by Lambert Smith Hampton, chartered surveyors and valuers.

Dividends

Interim dividends per Ordinary Share were paid during the year ended 31 December 2009 on 15 April 2009 (8.5p) and 20 November 2009 (8.5p). In order to accelerate dividend payments to Shareholders, the Board announced on 11 February 2010 the payment of a second interim cash dividend of 8.75 pence per Ordinary Share rather than a final dividend to Shareholders on the register of members on 19 February 2010 for payment on 26 March 2010 in respect of the year ended 31 December 2009.

Use of financial instruments

The use of and exposure to financial instruments, with an indication of the financial risk and management objectives and policies, is described in the Operating and Financial Review on pages 2 to 12 and in the note 18 to the financial statements and is included in this Report by reference.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Operating and Financial Review on pages 2 to 12. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are

Group Directors' Report continued

described on pages 38 and 41. In addition, notes 17 and 18 to the financial statements include the Group's objectives, capital position, details of financial instruments and hedging activities and its exposure to credit risk and liquidity risk. The Group's property portfolio is 100% let to tenants with strong covenants. The Group's borrowing facilities are not due for renewal until 2013 and, as a result of the capital raisings this year, the loan to value ratio is currently 49%, well below the banking covenant of 70% that becomes effective in March 2010. The pipeline of properties is strong. As a consequence, the Directors believe that the Group is well placed to manage the business risks successfully, despite the current uncertain economic outlook. Having reviewed the Group's current position and cash flow projections, loan facilities and covenant cover the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt a going concern basis in preparing the annual financial statements.

Directors

The Directors in office at 31 December 2009 and their biographies are listed on pages 18 and 19 of the Annual Report.

In accordance with provision A.7.2 of the Combined Code relating to non-executive directors who have served on the Board longer than nine years, Messrs Elliot, Gilbert and Hambro are subject to annual election and accordingly resolutions to re-elect them will be put to the Annual General Meeting and will be included in the Notice of Annual General Meeting (to be posted separately).

In accordance with Article 103 of the Articles of Association, Mr Jones retires by rotation and a resolution to reappoint him will be included in the Notice of Annual General Meeting (to be posted separately).

The Chairman and other members of the Board recommend that the Directors retiring be re-elected. The Chairman has confirmed that all Directors retiring and seeking re-election have been subject to performance evaluation and, as part of the evaluation, the Chairman confirms that they continue to demonstrate commitment to their roles and in his view continue to fulfil their functions responsibly. The other members of the Board, led by the Senior Independent Director, have evaluated the performance and commitment of the Chairman and recommend his re-election.

Details of the Directors' Remuneration are disclosed in the Directors' Remuneration Report on page 34 and note 4 to the financial statements on page 52.

Directors' interests

The interests (all of which are direct and beneficial unless otherwise stated) of the Directors in the Ordinary Shares of the Company including interests of a person connected with a Director (indirect) (within the meaning of the Disclosure and Transparency Rules) are given below.

	31 Dec 2009	31 Dec 2008
Ordinary shares of 50p		
Graeme Elliot	13,365	5,384
Martin Gilbert	57,158	-
William Hemmings (alternate to Martin Gilbert)	3,083	2,482
James Hambro	44,416	21,538
James Hambro (indirect)	501,464	280,000
Harry Hyman	48,742	44,772
Harry Hyman (indirect)	3,751,310	2,191,000
Ian Rutter	5,345	-
Alun Jones	15,670	5,138
Mark Creedy (appointed 1 November 2008)	5,000	-

Mr Gilbert is a director of Aberdeen Asset Management PLC (the holdng company for the fund management subsidiaries) and is chairman of its operating subsidiaries. Mr Hyman is a director of Nexus Group Holdings Limited.

Mr Hemmings is a director of a number of subsidiary companies of Aberdeen Asset Management PLC.

Save as disclosed below no changes occurred between 31 December 2009 and the date of this report.

Consequent on the monthly purchases of shares in a monthly share plan, Mr Hyman's beneficial interest was 48,874 Ordinary Shares and Mr Hemmings' beneficial interest was 3,149 Ordinary Shares as at the date of this Report.

Conflicts of interest

Following the changes to the Companies Act 2006, effective on 1 October 2008 and authorised in the Articles of

Association, the Board as a whole introduced a new conflicts of interest policy to formalise previous practice. This included a briefing for Directors on their obligations with regard to conflicts, a specific related item on every Board agenda and reminders of these obligations. The Board has a process for the proper management of Directors' conflicts including the management of confidential information when a Director is conflicted and for the approach to be adopted in such circumstances. The Board as a whole reviews and, if appropriate, approves any conficts of interest, while any conflicted Director takes no part in related decisions.

Employees

The Group has no employees, no employee share scheme and there are no agreements between the Company and its Directors providing for compensation for loss of office or employment (whether through resignation, proposed redundancy or otherwise) that may occur because of a takeover bid.

Interests in voting rights

The following interests have been notified to the Group pursuant to the Disclosure and Transparency Rules, all being held directly unless otherwise stated.

	Voting rights	%
Nexus Group Holdings Limited (indirect)	3,799,310	
Nexus Group Holdings Limited (direct)	40,332	
	3,799,784	6.18
Blackrock Inc. (indirect)	3,129,792	5.09
Aberdeen Asset Management PLC (indirect)	2,150,350	3.50
Legal & General (indirect)	1,893,326	3.08

3,612,632 of the ordinary shares held by Nexus Group Holdings Limited ("Nexus Group") are subject to a debenture and fixed charge (the "Debenture") over all of Nexus Group assets to its bank. As at the date of this Directors' Report, Nexus Group has confirmed that it is not currently in default of any of its banking commitments and that there is no current intention of the Nexus Group to sell any of its shares in the Group. Nexus Group has a contract for difference over 869,565 Ordinary Shares in the Company with Commerzbank AG, the proceeds of which are subject to the Debenture.

Save as disclosed under Disclosure and Transparency Rules, the Group is not aware of any restrictions on voting rights including limitation voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights or any arrangements by which financial rights carried by securities are held by persons other than the holder of securities.

Purchase of own shares

At the General Meeting held on 6 October 2009, the Shareholders' authority for the Company to purchase up to 10% of its Ordinary Shares pursuant to Section 561 of the Companies Act 2006 was renewed. This authority was not used during the year. The Board intends to seek the approval of Shareholders to renew the authority at the 2010 Annual General Meeting to be held on 27 April 2010 at 10.30am. Any Ordinary Shares purchased will be cancelled.

Significant agreements

The Company is required to disclose any contractual or other arrangements which it considers are essential to the business. Whilst the banking facilities provided by the Group's lenders are essential and subject to compliance with the specific covenants, the facility agreements with the lenders are not considered significant agreements as, if any one of these arrangements ended, the Group would seek other funding and the loss or disruption caused should only temporarily affect operations. The facilities are due for renewal in January 2013. Any transfer of the rights and obligations under the Agreement require the Banks' consent.

The Management Agreement with the Joint Managers is considered essential to the business as the Group has no employees. The Management Agreement is reviewed at least annually by the Management Engagement Committee. Details are given in the Related Party Transactions section on page 75.

During the financial year and as at the date of this Report, none of the Directors (save for Mr Hyman and Mr Hambro) was materially interested in any significant transactions relating to the Group's business nor interested in any currently proposed significant transactions save as disclosed above.

Group Directors' Report continued

Ordinary shares and voting rights

Issue of Shares

On 24 March 2009, 1,679,354, new ordinary shares of 50 pence each were issued at a price of 220 pence per new ordinary share. The Placing was taken up by institutional and other investors.

On 7 October 2009, 26,086,956 new ordinary shares of 50 pence each were issued by way of a Firm Placing and Placing and Open Offer at a price of 230 pence per new ordinary share.

On 16 November 2009, on a ratio of one share for every 32.83 eligible shares held at the Record Date, 103,894 new ordinary shares were issued to holders electing to receive new ordinary shares in lieu of the Interim cash dividend in respect of the Scrip Dividend Scheme. The Scrip Dividend Offer was not made in respect of the new shares issued in October 2009 on the Firm Placing and Placing and Open Offer.

As a result of these issues, capital and reserves increased by £61million and a net £60.7million of cash was raised.

Capital structure and voting rights

The Company has one class of shares in issue - ordinary shares of 50 pence each. In accordance with the Disclosure and Transparency Rules of the Financial Services Authority at the date of this Group Directors' Report, the Company has 61,457,298 Ordinary Shares of 50 pence each in issue, each share carrying the right to one vote.

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles of Association and prevailing legislation, nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the consent of holders of at least three quarters in nominal value of the issued shares of that class by way of a special resolution passed in General Meeting.

Related party transactions

Mr Hyman is a Director of Nexus PHP Management Limited ("NPM") and Nexus Group Holdings Limited. Mr Hambro is a Director of J O Hambro Capital Management Limited ("JOHCML"). Both NPM and JOHCML are Joint Managers and Messrs Hyman and Hambro are therefore deemed to have an interest in the Management Agreement and are related parties.

(a) Transactions in the year

In accordance with Listing Rule 11.10.(2) details of the transactions relating to the participation of Mr Hyman and Mr Hambro in respect of their beneficial and non beneficial holdings of shares issued in the placing of 1,679,354 new ordinary shares in March 2009 and in the Firm Placing of 19,033,667 new ordinary shares and Placing and Open Offer of 7,053,289 new ordinary shares both in October 2009, are given below. These details were released on the Regulatory News Service at the appropriate times and on the Company's website.

Name	Placing March 2009	Price per share	Firm Placing and Placing and Open Offer October 2009	Price per share
Nexus Group Holdings Limited (non beneficial holding of Harry Hyman)	82,000	220p	456,332[3]	230p
			869,565[4]	230p
Connected person to Harry Hyman	6,589[1]	220p	1,513	230p
Connected person to Harry Hyman	70,181[2]	220p		230p
Total	158,770		1,327,410	
Harry Hyman (beneficial)	-	220p	9,394	230p
J O Hambro Capital Management Limited	9,317	220p	212,147	230p
James Hambro	3,993	220p	18,885	230p
Total holding	**172,080**		**1,567,836**	

1 T Walker-Arnott (Director of Nexus PHP Management Limited)
2 B Kelly (Chairman of Nexus Group Holdings Limited)
3 Open Offer
4 Firm Placing

Nexus Group Holdings Limited ("NGHL"), as disclosed in the Company's prospectus dated 18 September 2009, carried out its stated intention of selling all 869,565 ordinary shares it acquired in the firm placing at a price of 288 pence per share and simultaneously entered into a contract for difference over the same number of ordinary shares at a price of 288 pence per ordinary share.

(b) Management Agreement

Pursuant to the Management Agreement dated 14 March 1996 (as amended from time to time and last updated by Deed of Variation on 23 November 2006) between the Company and the Joint Managers (NPM and JOHCML) the Company appointed:

- NPM to provide property advisory and management services and the services of the Managing Director of the Company
- Each Joint Manager has the continuing right to appoint and remove one person as a Director of the Company and to receive the Director's fee (currently £20,000 per annum)
- JOHCML to provide administration and accounting services and is the appointed Company Secretary.

The Management Agreement is terminable by not less than two years' written notice (other than in circumstances of default). The Management Agreement contains no provisions to amend, alter or terminate the Agreement upon a change of control of the Group following a takeover bid.

NPM and JOHCML are paid a monthly fee equal to 1% per annum of the first £50million of the gross assets of the Group (0.55% per annum to NPM (less £5,000) and 0.45% per annum (plus £5,000) to JOHCML) and thereafter at 0.75% per annum of the gross assets (0.4125% to NPM and 0.3375% to JOHCML), subject to a minimum payment of £120,000 per annum, the first £100,000 of which in each year is paid to NPM for the provision of the services of the Managing Director.

NPM and JOHCML are entitled to a Performance Incentive Fee equal to 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" (as derived from the audited accounts for the immediately preceding financial period prior to the date of payment) provided that if the Total Return is less than 8% in any one year the deficit must be made up in subsequent years before any subsequent Performance Incentive Fee is paid. No performance fee has been payable in 2009 or 2008.

On the basis of the relevant audited accounts, the Total Return is determined by calculating the change in the net asset value per ordinary share, on a fully diluted basis, after any adjustment for any increase or reduction in the issued share capital and adding back gross dividends paid per ordinary share.

In addition, the Company pays NPM a property management fee, agreed out of pocket expenses and a fee for the preparation of the Group's taxation provisions, being the reimbursement for the services of NPM's employees engaged directly on the Group's activities. Amounts paid and payable to the Joint Managers are included in note 4 to the financial statements on page 52.

Creditor payment policy

For all trade creditors, the Group's policy is to agree the terms of payment at the start of business with the service provider, ensure that parties are aware of the terms of payment and pay in accordance with contractual and legal obligations. The main operating company, Primary Health Investment Properties Limited and the Company follow the Group policy.

Annual General Meeting

The Annual General Meeting is convened on 27 April 2010 at 10.30am at the registered office of the Company, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. The Circular to Shareholders and the Notice of Annual General Meeting will be posted separately.

Corporate Governance Statement

The Corporate Governance Statement is given on pages 27 to 33 of the Annual Report.

Donations

The Group does not make any political or charitable donations.

Share service

The Primary Health Properties Share Service is provided by Capita IRG Trustees Limited and offers the flexibility to purchase ordinary shares in PHP by paying in a regular monthly

Group Directors' Report continued

amount or by paying in occasional lump sums. Details are available on the website www.phpgroup.co.uk/shareservice.

Post balance sheet events

Details of acquisitions completed since the year end are given on page 12 of the Operating and Financial Review.

Auditors and statement as to disclosure of information to the Auditors

A resolution to re-appoint Ernst & Young LLP and to authorise the Board to determine their remuneration will be put to the Annual General Meeting to be held on 27 April 2010.

Each Director confirms that, so far as he is aware, there is no audit information of which the Group's Auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to ensure that the Group's Auditors are aware of this information.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
24 February 2010

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

Registered in England No: 3033634

Directors' Responsibility Statements

Statement of Directors' Responsibilities in respect of the Annual Report and Group Financial Statements

The Directors are responsible for preparing the Annual Report, the Director's Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of the affairs of the Group as at the end of the financial year 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 in accordance with IAS8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website www.phpgroup.co.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement under the Disclosure and Transparency Rules

The Directors confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole;
- the management reports (which are incorporated into the Directors' Report) contained in the Annual Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties faced.

For and on behalf of the Board

Graeme Elliot
Chairman
24 February 2010

Corporate Governance

Statement by Directors on compliance with the Combined Code

The Group's policy is to achieve best practice in our standards of business integrity in all our activities. This includes a commitment to follow the highest standards of corporate governance throughout the Group where appropriate to the Group's circumstances and within its control. This section of the Annual Report describes how the Group has applied the main principles set out in section 1 of the Combined Code on Corporate Governance revised in June 2008 (the "Code"). The Code is published by the Financial Reporting Council and is publicly available on its website.

The Board considers that it has complied with the provisions of the Code throughout the year with the exception that there is no internal audit department, non-executive directors are not appointed for specific terms and certain Directors, appointed in the past, have served for more than two terms. However, those non-executive Directors who have been directors for a period longer than two three year terms are subject to rigorous review, performance evaluation (A.7.2) and annual election and the Board values their contribution and historic experience. These Directors' biographies show a wide range of experience directly relevant to the Group's activities.

The Group is committed to meeting high standards of corporate governance and as such the Board acknowledges its contribution to achieving accountability, improved risk management and ultimately to creating shareholder value.

Board composition and independence

The Board comprises the Chairman, Managing Director and five non-executive Directors, three of whom are considered by the Board to be independent. Details of the Chairman, the Directors and their roles are shown on pages 18 and 19. Their biographical details demonstrate a range of corporate, financial, property, investment and NHS experience relevant to the Group's business and demonstrate sufficient calibre to bring independent judgement on issues of strategy and performance of the Group. The roles of the Chairman and the Managing Director are distinct and have been agreed and accepted by the Board. The Chairman chairs the Board and general meetings of the Company, sets the agenda of such meetings, promotes the highest standards of integrity, probity and corporate governance throughout the Group and particularly at Board level. He ensures that the Board receives accurate, timely and clear information, communicates effectively with shareholders, facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. He also ensures that any new Directors participate in a full, formal and tailored induction programme and that the performance of the Board, its committees and individual Directors is evaluated at least once a year. There is a clear structure for, and the effective running of, Board committees. The Managing Director is accountable for the management of the Group with the Joint Managers as set out in the Management Agreement.

As part of its annual self assessment, the Board critically evaluates the independence of individual Directors and has

Meetings and attendance

Director	Board meetings attended (total 9)	Audit Committee meetings attended (total 2)[2]
Graeme Elliot[1]	9	1
Alun Jones	9	2
Harry Hyman	9	N/A
Mark Creedy	8	2
James Hambro	8	N/A
Martin Gilbert (alternate William Hemmings)	9	N/A
Dr Ian Rutter	8	2

1 Member of Audit Committee from 17 August 2009

2 Any non members of the Audit Committee being present is not recorded here.

concluded that all the Directors continue to act independently in both character and judgement, taking account of the interest of all Shareholders. Alun Jones, Ian Rutter and Mark Creedy meet the independence criteria set out in the code, whilst Graeme Elliot, Martin Gilbert (alternate William Hemmings) and James Hambro have been on the Board longer than nine years and as such are not considered independent although still non-executive and are therefore subject to annual election. The Board has discussed their tenure, rigorously evaluated each Director's performance and agreed that they each continue to provide a significant contribution to the Board and accordingly recommends their re-election. The Board considered that the Chairman was independent at the time of his appointment.

Operation of the Board

The Board's role is to:

(a) provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed;

(b) set the Group's strategic aims, ensure that the necessary financial and human resources via the Management Agreement are in place for the Group to meet its objectives, and review through its management engagement committee the performance of management; and

(c) set the Group's values and standards and ensure that its obligations to its Shareholders and others are understood and met.

The Board has a schedule of matters formally reserved to it for its decision. Such matters include strategy, capital issues, business acquisitions and disposals, property purchases, material contractual arrangements, banking facilities, approval of budgets, financial statements and non routine announcements. Matters not requiring debate or necessary for the implementation of urgent decisions on matters previously discussed at board meetings and arising are delegated to the Standing Committee. The Board has delegated certain activities to the Joint Managers as described in the Management Agreement dated 14 March 1996 (as amended from time to time). This provides that Nexus PHP Property Management Limited ("NPM") is engaged to identify suitable properties, negotiate the terms of purchase of these properties subject to approval by the Board and provide property management services to the Group. The Agreement appoints Harry Hyman (Managing Director of NPM) as the designated Managing Director. The second Joint Manager, J O Hambro Capital Management Limited ("JOHCML"), provides accounting and administration services to the Group. The Joint Managers also provide the services of the directors to serve on the subsidiary boards to facilitate their day-to-day operations. The Management Agreement also provides for the appointment of JOHCML as Company Secretary which is responsible for ensuring that Board procedures are followed, that applicable rules and regulations are complied with and for advising the Board through the Chairman on governance matters. The agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis in advance of the Board meetings. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Group maintains appropriate insurance cover in respect of legal action against the Company's Directors.

The Board met nine times during the year including a strategy session and site visits to new build properties. There are opportunities for the Chairman and independent Directors to discuss matters without other Directors being present.

The following Board Committees have specific delegated authority granted by the Board to consider certain aspects of the Group's affairs. The Committee Chairman reports to the Board as and when appropriate.

Audit Committee

The Audit Committee consists of four non-executive directors, three of whom are considered by the Board to be independent. These are Alun Jones (Chairman), Dr Ian Rutter and Mark Creedy (all of whom are independent). Graeme Elliot (the Chairman of the Board) joined the Committee on 17 August 2009. The committee has at least one member possessing what the Smith Guidance describes as recent and relevant financial experience. Alun Jones, a chartered accountant, was a partner of Pricewaterhouse-

Corporate Governance continued

Coopers LLP between 1981 and 2006. It will be seen from the Directors' biographical details, appearing on pages 18 and 19, that the other members of the committee bring to it a wide range of relevant experience.

The external auditors are present at the meetings and, in addition, it is common practice for the Committee to meet the external auditors without management present at least once each year. There are no employees of the Joint Managers' on the committee. The Managing Director, Joint Manager representatives and non-executive and non-independent Directors may attend Audit Committee meetings at the invitation of the Audit Committee chairman.

The main role and responsibilities are set out in written terms of reference which are available for inspection on the Company's website and include:

- monitoring the integrity of the Group's financial statements and reviewing significant financial reporting issues and judgments contained therein;
- reviewing the Group's systems of financial control and risk management;
- making recommendations to the Board on the appointment and dismissal of the external auditor and approving their remuneration and terms of engagement;
- monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements; and
- annually considering the need for an internal audit function.

These responsibilities are primarily discharged as follows:

- At its scheduled meetings in February and August, the Audit Committee reviews the Company's preliminary announcement/annual financial report and the half year report respectively. On both occasions, the Committee receives reports from the external auditors identifying any accounting, presentation, internal control or judgemental issues requiring its attention. Any further Audit Committees may be convened if requested by the Audit Committee Chairman.
- The Audit Committee Chairman also meets the auditors and staff of the Managers in December and February to review the audit plans, accounting processes, progress and discuss emerging points and early drafts of the Annual Report and financial reporting.
- The Joint Managers are, from time to time, required to make presentations to the Audit Committee on the subject of risk, its identification, management and control, accounting and control and property portfolio management.

As noted above, one of the duties of the Audit Committee is to make recommendations to the Board in relation to the appointment of the external auditors. A number of factors are taken into account by the Committee in assessing whether to recommend the auditors for re-appointment. These include:

- the quality of reports provided to the Audit Committee and the Board and the quality of advice given;
- the level of understanding demonstrated of the Company's business and industry; and
- the objectivity of the auditors' views on the controls around the Company and their ability to coordinate an audit working to tight deadlines.

The Audit Committee has put in place safeguards to ensure that the independence of the audit is not compromised. Such safeguards include:

- seeking confirmation that the auditors are, in their professional judgement, independent of the Company;
- obtaining from the external auditors an account of all relationships between the auditors and the Company;
- considering whether, taken as a whole, the various relationships between the Company and the external auditors impairs, or appears to impair the auditors' judgement or independence;
- considering whether the compensation of individuals employed by the external auditors who are performing the audit is tied to the provision of non-audit services and, if so, consider whether this impairs, or appears to impair, the external auditors' judgement or independence; and

- reviewing the economic importance of the Company to the external auditors and assessing whether that importance impairs, or appears to impair, the external auditors' judgement or independence.

The Company has a policy governing the conduct of non-audit work by the auditors. Under that policy the auditors are prohibited from performing services where the auditors:

- may be required to audit their own work;
- participate in activities that would normally be undertaken by management;
- are remunerated through a 'success fee' structure, where success is dependent on the audit; and
- act in an advocacy role for the Company.

Other than the above, the Company does not impose an automatic ban on the Company's auditor undertaking non-audit work. The auditor is permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence, providing they have the skill, competence and integrity to carry out the work in the best interests of the company and each such appointment is reviewed on a case by case basis. Activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the committee for approval prior to engagement, regardless of the amounts involved. All assignments are monitored by the Committee.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements on page 52.

The Audit Committee relies on arrangements by which the staff of the Joint Managers may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensures that the Joint Managers have in place arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action (Code Provision C.3.4).

Remuneration Committee

The Remuneration Committee meets once per year and comprises three independent directors, Mr Jones (Chairman), Dr Rutter and Mr Creedy. The appointment and remuneration of the one executive director (Managing Director) is governed by the Management Agreement. The Remuneration Committee currently reviews the level of Directors' fees at three yearly intervals within limits set in the Articles of Association and reviews the Remuneration Report prior to its submission to the Board. The Directors' Remuneration Report is set out on pages 33 to 34.

Nomination Committee

The Nomination Committee comprises the three Independent Directors and is chaired by Mr Jones. It meets as and when deemed necessary. It reviews from time to time the combination and balance of experience, core competencies and other attributes which the non-executive Directors should bring to the Board. It discharges its role in nominating any new Directors and in considering succession planning. Non-executive Directors are appointed subject to re-election by Shareholders and to three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected. No non–executive Directors are appointed for specific time periods.

Management Engagement Committee

The Management Engagement Committee comprises Mr Jones (Chairman), Dr Rutter and Mr Creedy and annually reviews the terms of the Management Agreement and the performance of the Joint Managers. At the invitation of the Committee's Chairman, the non-independent non-executive Directors (Mr Elliot and Mr Gilbert (alternate Mr Hemmings)) may be invited to attend.

Standing Committee

The Standing Committee comprises Mr Elliot, Mr Hyman and Mr Hambro. The Board has delegated to the Standing Committee the authority and set terms of reference to deal with the implementation of Board decisions, routine business and to deal with any urgent items arising between board meetings not requiring debate. Its terms of reference are available on request and are on the website.

Corporate Governance continued

Report of the Management Engagement Committee

During the year the Management Engagement Committee reviewed the terms of the Management Agreement and the Joint Managers' remuneration, engagement and performance. Full details of the remuneration paid to the Joint Managers is on pages 52 and 53.

Report of the Nomination Committee

The Committee did not need to meet formally during the year.

Report of the Standing Committee

During the year, the Standing Committee met to implement decisions previously discussed at scheduled Board Meetings or to implement urgent decisions not requiring debate. All minutes were circulated to all Directors.

Induction and training

New Directors receive induction on their appointment to the Board covering the activities of the Group and its key business and financial information, the schedule of matters reserved to the Board, matters delegated to the Joint Managers, and the terms of reference of the Committees and the latest information. The Chairman ensures that Directors have the opportunity to update their knowledge as required to discharge their roles on the Board and its Committees. The Chairman, with the assistance of the Managing Director and Company Secretary, ensures that the Board is kept properly informed, is consulted on all issues reserved to it and that decisions are made in a timely and considered way that enables Directors to fulfil their statutory duties. The Company Secretary provides briefing updates on changes to the Companies Act 2006 and the regulatory regime affecting their role as Directors as and when necessary and all Directors have access to and may consult with the Company Secretary at any time. All Directors have access to independent professional advice at the Company's expense should it be necessary and subject to clearance from the Chairman.

Board performance and evaluation

The Chairman is responsible for ensuring the annual evaluation of the Board's performance and that of its Committees and individual Directors. During the year, the Chairman evaluated the performance of the Board, Committees and individual Directors, including those subject to annual election, using the circulation of a questionnaire based on the process and questions outlined in the Code concerning Board and Committee performance and meetings. He discussed with the Board broad themes and outcomes for 2010 and highlighted strengths and any weaknesses. The outcome was that the Board and its Committees were judged to be operating effectively. The other Directors, led by the Senior Independent Director, evaluated the performance of the Chairman.

Communications with Shareholders

The Board is accountable to Shareholders and the Board considers it important that each appreciate the requirements of the other party. Communication with Shareholders is therefore considered important. The periodic financial reporting calendar is dominated by the publication of annual and half year financial reports in which the Board reports to Shareholders on its stewardship of the Company. The Operating and Financial Review comments on the Group's financial performance within its sector, the principal risks facing the Group and the Board's objectives and plans for the future. At other times during the year all announcements to the Stock Exchange are on the Company's website and available to Shareholders.

Two of the larger Shareholders are represented on the Board (Nexus Group Holdings Limited and Aberdeen). The Annual General Meeting provides an opportunity for communication with private and institutional investors and the Board welcomes their participation. All Directors attend the Annual General Meeting and the Chairman, Chairman of the Audit Committee, Senior Independent Director and Managing Director are all available to answer questions. Notice of the Annual General Meeting and related papers are sent to Shareholders at least 20 business days before the meeting. All proxy votes are counted and the numbers for and against each resolution are announced after a vote by the members present and published on the Company's website. The Notice for the 2010 Annual General Meeting will be posted separately.

Internal control

The Board is responsible for the Group's system of internal control, which has been in operation throughout the year and to the date of this Report, and for reviewing its effectiveness. The Board believes that the key risks facing the business have been identified and has implemented an ongoing system to identify, evaluate and manage these risks that is based upon and relevant to the Group's business as a UK-REIT. Key features of the system of internal control include a comprehensive system of budgetting, financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and the Joint Managers in all aspects of the day-to–day operations. The on-going risk assessment process is regularly reviewed by the Board and is in accordance with Turnbull guidelines. It includes consideration of the scope and quality of the systems of internal control adopted by the Joint Managers and the identification of risks specific to the Group's operations and objectives which ensure regular communication of the results of monitoring to the Board. Any 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 Group's performance or conditions are reported to the Board and necessary actions are taken to remedy any significant failings or weaknesses. Nevertheless, the Board believes that, although robust, the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore the system can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee and Board considers annually the requirement for an internal audit department and the Board, on the recommendation of the Audit Committee, has concluded that one is not currently required.

In preparing its periodic financial reports of the Group, the Board is reliant on the policies and procedures followed by the Joint Managers to ensure that the records accurately reflect transactions and provide reasonable evidence that transactions are correctly recorded so as to facilitate the production of financial statements in accordance with International Financial Reporting Sandards ("IFRS") and other applicable reporting standards. To satisfy itself that appropriate procedures and policies are in place, the Audit Committee and the Board regularly receive and review reports on this aspect of the Joint Managers' affairs.

At the time of approving the half yearly and annual financial reports, the Audit Committee also receives comfort letters from each of the Joint Managers to assist the Board in making the disclosures.

Directors' Remuneration Report

Role and composition

The Remuneration Committee is chaired by Mr Jones and its other members are Dr Rutter and Mr Creedy. Mr Creedy joined the Committee on 1 March 2009.

This report has been prepared in accordance with section 420 Companies Act 2006 and in accordance with the information required by the Reports and Accounts Regulations, (Companies Act 2006), Company Law and the Listing Rules. The Notice of the Annual General Meeting to be posted separately includes an ordinary resolution to approve the Directors Remuneration Report. No payment of remuneration is conditional upon this vote being passed and it is an advisory vote only.

The Remuneration Committee aims to seek and retain the appropriate calibre of people and recommends fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities. The Company has no employees and therefore pay and employment considerations are not taken into account in determining directors' fees, nor does it determine executive pay.

The Committee determines appropriate levels of remuneration for all Directors and historically reviews the Chairman and Directors' fees both non-executive and for the Managing Director for increases at three yearly intervals within limits on aggregate Directors' fees as set out in the Articles of Association of £250,000 per annum. The Committee makes recommendations to the Board as a whole and no Director is involved in any decision regarding his own remuneration. The Directors' fees were last increased in July 2008. The set fee for each Director is currently £20,000 per annum and £25,000 per annum for the Chairman. These fees are next due for review in July 2011.

In addition, in June 2009 the recommendation of the Chairman, Joint Managers and non-executive Directors and, after evaluation of his performance, it was agreed that the annual fee payable to Mr Jones be increased from £2,500 to £5,000 per annum with effect from 1 June 2009 in respect of his services to the Audit Committee. This fee is next due for review in June 2010.

Remuneration of Directors (audited)

	Year ended 31 December 2009 £	**Year ended 31 December 2008 £**
Graeme Elliot (Chairman)	25,000	22,500
Harry Hyman (Managing Director)	20,000	17,500
Alun Jones (SID and Chairman of Audit, Management Engagement, Remuneration and Nomination Committees)	23,750	18,750
James Hambro	20,000	17,500
Martin Gilbert	20,000	17,500
Ian Rutter	20,000	17,500
Mark Creedy[1]	20,000	5,000
Total	148,750	116,250

1 Appointed 1 November 2008

The remuneration of Directors can also be found in note 4 of the financial statements on page 52. Messrs. Hyman and Hambro are Directors of NPM and JOHCML respectively (the Joint Managers) and their entitlement to Directors' fees (which is the same as other Directors) is contained in the Management Agreement. The fees in respect of the services of Mr Hyman are paid to NPM. The Management Agreement provides for the first £100,000 of the management fee to be payable to NPM each year in respect of the services of the Managing Director. The fees in respect of Mr Hambro's services are paid to JOHCML. Mr Hambro and his family trusts are an indirect shareholder of JOHCML. Further details of the Management Agreement are given in the Related Parties section of the Group Directors' Report on pages 24 to 25 and details of amounts paid to the each of Joint Managers in notes 4 and 28 on pages 52 and 75 to the financial statements. The fee in respect of Mr Gilbert's services as a Director is paid to Aberdeen Asset Management PLC. No Directors receive any benefits in kind. No Directors receive any pensions. No Director received any share options during the year and no Director is entitled to receive any payments for loss of office. Directors may be reimbursed for out-of-pocket travel and accommodation expenses in connection with Board meetings and in line with the Group's expense policy.

Service contracts

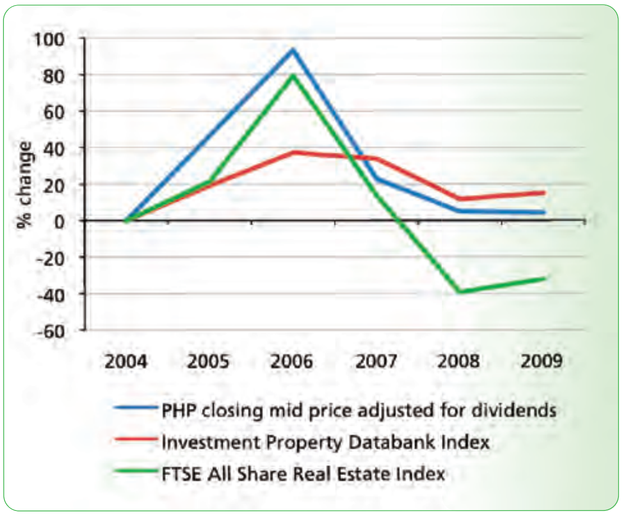
No Director has a service contract nor are they appointed for a specific term of office. The contracts for the services of Messrs Hyman and Hambro are with NPM and JOHCML respectively pursuant to the Management Agreement. The Management Agreement provides for the appointment of the Managing Director of the Company (such person to be approved by the Company and to spend at least ten full working days per calendar month on the business of the Company). The Management Agreement provides that NPM and JOHCML each have the continuing right to appoint and remove any one person as a Director of the Company, and is terminable by not less than two years' written notice (other than in circumstances of default). Further details are given in the related party section of the Group Directors' Report on pages 24 and 25. The Company has not complied with Code provision B.1.4 and disclosed the amount of fees received by the Managing Director in respect of his other non-executive director appointments. Since he is committed to working for this Company for a certain number of working days each month, this information is not deemed relevant and the Remuneration Committee is satisfied that the Company received the appropriate time commitment from the Managing Director.

There are letters of appointment in place for the five other Directors including the Chairman. These set out the time commitment expected and duties of confidentiality and provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles of Association and to retirement by rotation, that such appointment can be terminated upon either party giving not less than three months' prior written notice, with no compensation for loss of office. These letters of appointment are available for inspection at the Registered Office and at the Annual General Meeting.

All Directors are subject to re-appointment by Shareholders at the first Annual General Meeting held after their appointment and to re-election thereafter at intervals of no more than three years. In addition, and in accordance with Code Provision A.7.2, three Directors who have been on the Board for a period longer than nine years are subject to annual election.

Company's performance

The following graph compares, over a five year period, the total shareholder return (as required by Company Law) of the Company's Ordinary Shares relative to a return on a hypothetical holding over the same period in the FTSE All Share Real Estate Index. This index has been chosen by the Board as the most appropriate in the circumstances. Total shareholder return is the measure of returns provided by a company to shareholders reflecting share price movements and assuming reinvestment of dividends. The Company has been a constituent of the FTSE ALL Share Real Estate Index throughout the five year period.



As in previous years, the Investment Property Database ("IPD") Index, used by the Board as a key performance indicator, has also been included. The IPD index remains a relevant measure of property market performance, in terms of the number of properties and length of historic coverage (27 years). At the quarter end of 2009, (the latest information available), the 7,859 properties covered by the Annual Index were valued at £84.3 billion. The UK Annual index has measured the three market sub-sectors (namely office, retail and industrial) since 1971.

For the year ended 31 December 2009, the highest and lowest mid-market price of the Company's Ordinary Shares was 311.84p and 218.77p respectively.

In accordance with section 422 of Companies Act 2006, this report was approved by the Board on 24 February 2010 and signed by Mr Jones, Director and Chairman of the Remuneration Committee.

For and on behalf of the Board

Alun Jones
Chairman of the Remuneration Committee
24 February 2010

Independent Auditors' Report

Independent Auditors' Report to the Members of Primary Health Properties PLC

We have audited the Group financial statements of Primary Health Properties PLC for the year ended 31 December 2009 which comprise the Group Balance Sheet, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statements (on page 26), the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulations.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements;
- the information given in the Corporate Governance Statement set out on pages 27 to 32 with respect to internal controls and risk management systems in relation to financial reporting is consistent with the financial statements and;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

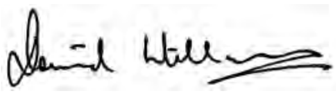
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on pages 21 and 22, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Primary Health Properties PLC for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.



David Wilkinson
Senior Statutory Auditor

for and on behalf of
Ernst & Young LLP
Statutory Auditor
London
24 February 2010

Group Statement of Comprehensive Income
for the year ended 31 December 2009

	Notes	31 December 2009 £000	31 December 2008 £000 (restated [4])
Rental income		**20,994**	19,312
Finance lease income		**338**	379
Rental and related income	3	**21,332**	19,691
Direct operating expenses arising from investment property that generated rental income		**(210)**	(250)
Administrative expenses: recurring	4	**(3,460)**	(3,522)
Administrative expenses: non-recurring	4	**372**	(794)
Operating profit before net valuation gain/(loss) on property portfolio		**18,034**	15,125
Net valuation gain/(loss) on property portfolio	10	**1,615**	(17,707)
Operating profit/(loss) before financing costs	4	**19,649**	(2,582)
Finance income	5	**86**	2,024
Finance costs	6	**(10,267)**	(12,526)
Fair value gain/(loss) on derivatives	6	**1,318**	(10,655)
Profit/(loss) on ordinary activities before taxation		**10,786**	(23,739)
Current taxation	7	**-**	-
Conversion to UK-REIT charge	7	**-**	(160)
Taxation charge		**-**	(160)
Profit/(loss) for the year [4]		**10,786**	(23,899)
Other comprehensive income being movement in cash flow hedging reserve		**7,657**	(16,350)
Total comprehensive income for the year net of tax[1]		**18,443**	(40,249)
Earnings per share [2]	8	**26.6p**	(62.0p)
Adjusted earnings per share [2,3]	8	**18.4p**	14.0p

The above relates wholly to continuing operations.

1 Wholly attributable to equity shareholders of Primary Health Properties PLC.
2 There is no difference between basic and fully diluted EPS.
3 Adjusted for large one-off items and movements in fair value (see note 8).
4 Restated as described in note 2 to the financial statements.

Group Balance Sheet
as at 31 December 2009

	Notes	31 December 2009 £000	31 December 2008 £000 (restated)
Non current assets			
Investment properties	10	**341,890**	316,862
Net investment in finance leases	12	**3,014**	2,989
Derivative interest rate swaps	18	**1,386**	-
		346,290	319,851
Current assets			
Derivative interest rate swaps	18	**63**	454
Trade and other receivables	13	**1,939**	2,090
Net investment in finance leases	12	**49**	50
Cash and cash equivalents	14	**212**	675
		2,263	3,269
Total assets		**348,553**	323,120
Current liabilities			
Derivative interest rate swaps	18	**(12,208)**	(13,917)
Corporation tax payable	15	**(29)**	(29)
UK-REIT conversion charge payable	16	**(1,455)**	(1,559)
Deferred rental income		**(4,638)**	(4,275)
Trade and other payables	16	**(1,991)**	(3,817)
		(20,321)	(23,597)
Non current liabilities			
Term loans	17	**(166,139)**	(204,088)
Derivative interest rate swaps	18	**(9,322)**	(14,923)
UK-REIT conversion charge payable	16	**(856)**	(2,226)
		(176,317)	(221,237)
Total liabilities		**(196,638)**	(244,834)
Net assets		**151,915**	78,286

Group Balance Sheet continued

	Notes	31 December 2009 £000	31 December 2008 £000 (restated)
Equity			
Share capital	19	**30,729**	16,794
Share premium	20	**50,664**	48,009
Capital reserve	21	**1,618**	1,618
Special reserve	22	**44,442**	-
Cashflow hedging reserve	23	**(7,266)**	(14,923)
Retained earnings	24	**31,728**	26,788
Total equity [1]		**151,915**	78,286
Net asset value per share	25	**247.2p**	226.7p[3]
EPRA net asset value per share [2]	25	**279.9p**	272.9p[3]

1 Wholly attributable to equity Shareholders of Primary Health Properties PLC.

2 See definition on page 7.

3 The NAV is based on the restated audited consolidated balance sheet of the Group, as adjusted to illustrate the capital raisings which occurred in 2009, as if these events had been completed on 31 December 2008.

These financial statements were approved by the Board of Directors on 24 February 2010 and signed on its behalf by:

Graeme Elliot
Chairman

Group Statement of Changes in Equity
for the year ended 31 December 2009

	Share capital £000	Share premium £000	Special reserve £000	Capital reserve £000	Cashflow hedging reserve £000	Retained earnings £000	Total £000
1 January 2009	**16,794**	**48,009**	**-**	**1,618**	**(14,923)**	**26,788**	**78,286**
Profit for the year	-	-	-	-	-	10,786	10,786
Income and expense recognised directly in equity:							
Transfer to Group Statement of Comprehensive Income on cash flow hedges	-	-	-	-	3,148	-	3,148
Fair value gains on cash flow hedges taken to equity	-	-	-	-	4,509	-	4,509
Total comprehensive income	-	-	-	-	7,657	10,786	18,443
Proceeds from capital raisings	13,935	3,088	46,956	-	-	-	63,979
Expenses of capital raisings	-	(433)	(2,514)	-	-	-	(2,947)
Dividends paid:							
Second dividend for the year ended 31 December 2008 (8.50p)	-	-	-	-	-	(2,855)	(2,855)
First interim dividend for the year ended 31 December 2009 (8.50p)	-	-	-	-	-	(2,707)	(2,707)
Scrip issue in lieu of interim cash dividends (net of expenses)	-	-	-	-	-	(284)	(284)
31 December 2009	**30,729**	**50,664**	**44,442**	**1,618**	**(7,266)**	**31,728**	**151,915**
1 January 2008	**16,794**	**48,009**	**-**	**1,618**	**1,427**	**56,229**	**124,077**
Loss for the year	-	-	-	-	-	(23,004)	(23,004)
Adjustment to retained earnings	-	-	-	-	-	(895)	(895)
Restated loss for the year	-	-	-	-	-	(23,899)	(23,899)
Income and expense recognised directly in equity:							
Transfer to Group Statement of Comprehensive Income on cash flow hedges	-	-	-	-	(1,535)	-	(1,535)
Fair value losses on cash flow hedges taken to equity	-	-	-	-	(14,815)	-	(14,815)
Total comprehensive income	-	-	-	-	(16,350)	(23,899)	(40,249)
Dividends paid:							
Third dividend for the period ended 31 December 2007 (8.25p)	-	-	-	-	-	(2,771)	(2,771)
First interim dividend for the year ended 31 December 2008 (8.25p)	-	-	-	-	-	(2,771)	(2,771)
31 December 2008 (restated)	**16,794**	**48,009**	**-**	**1,618**	**(14,923)**	**26,788**	**78,286**

1 Attributable to the equity holders of Primary Health Properties PLC.

Group Cash Flow Statement
for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000 (restated)
Operating activities			
Profit/(loss) before tax		**10,786**	(23,739)
Less: Finance income		**(86)**	(2,024)
Plus: Finance costs		**10,267**	12,586
Plus: Fair value (gain)/loss on derivatives		**(1,318)**	10,655
Operating profit/(loss) before financing		**19,649**	(2,522)
Adjustments to reconcile Group operating profit/(loss) to net cash flows from operating activities:			
Revaluation (gain)/loss on property		**(1,615)**	17,707
Plus: Goodwill impairment		**-**	90
(Increase)/decrease in trade and other receivables		**(131)**	1,577
(Decrease)/increase in trade and other payables		**(377)**	269
Cash generated from operations		**17,526**	17,121
UK-REIT conversion charge instalment		**(1,575)**	(1,322)
Net cash flow from operating activities		**15,951**	15,799
Investing activities			
Payments to acquire investment properties		**(23,413)**	(41,465)
Interest received on developments		**46**	262
Bank interest received		**4**	160
Other interest		**36**	20
Acquisition of SPCD companies	10	**-**	(7,846)
Net cash flow used in investing activities		**(23,327)**	(48,869)
Financing activities			
Proceeds from issue of shares (net of expenses)		**60,748**	-
Term bank loan drawdowns		**38,990**	69,900
Term bank loan repayments		**(77,290)**	(24,150)
Net swap interest received		**-**	1,835
Net swap interest paid		**(6,541)**	-
Interest paid		**(3,432)**	(12,160)
Equity dividends paid		**(5,562)**	(5,542)
Net cash flow from financing activities		**6,913**	29,883
Decrease in cash and cash equivalents for the year		**(463)**	(3,187)
Cash and cash equivalents at start of year		**675**	3,862
Cash and cash equivalents at end of year (note 14)		**212**	675

Notes to the Financial Statements

1 Corporate information

The Group's financial statements for the year ended 31 December 2009 were approved by the Board of the Directors on 24 February 2010 and the Balance Sheets were signed on the Board's behalf by the Chairman, G A Elliot (see page 40). Primary Health Properties PLC is a public limited company incorporated and domiciled in England & Wales. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Services Authority and traded on the London Stock Exchange.

2 Accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

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

Statement of compliance

The Group prepares consolidated financial statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union and applied in accordance with the Companies Act 2006 and Article 4 of the IAS Regulations.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Primary Health Properties PLC and its wholly owned subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtained control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of the subsidiary undertakings are prepared for the accounting reference period ending 31 December each year using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated.

The Parent Company financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP and the use of IFRS at Group level does not affect the distributable reserves available to the Group.

Segmental reporting

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

Restatement

During the year it was established that a swap interest accrual of £895,000 had been omitted from the 31 December 2008 accounts. The prior year balances have been restated to correct this error. The December 2008 trade and other payables balances has been increased by £895,000 and the bank swap interest income figure has been decreased by the same amount. As a result of the above adjustment, the 31 December 2008 basic loss per share figure increased from 68.5p per share to 71.2p per share and the adjusted earnings per share figure reduced from 18.8p to 16.2p. The retained earnings decreased from £27.7million to £26.8million. In addition £457,000 of bank charges

Notes to the Financial Statements continued

previously recognised in administrative expenses has been reclassified as finance costs. There is no impact on the financial statements for the year ended 31 December 2009. The Directors have not presented a third column on the Group Balance Sheet because the restatement does not have an impact on the opening 2008 reserves.

2.2 Changes to accounting policies and disclosures

The Group has considered and, where appropriate, adopted the following amendments to IFRS in these financial statements:

IFRS 8 Operating Segments

IFRS 8 replaces IAS 14 "Segment Reporting" upon its effective date of 1 January 2009 and requires a direct link between the segment disclosures in the financial statements and the information reported to the board of directors or chief operating decision maker. The Group has a non-complex structure of business activities and the Directors consider that the operating segment determined in accordance with IFRS 8 is the same as the business segment currently identified under IAS 14 and all Group reporting is based on this single segment.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are disclosed by source of inputs using a three level fair value hierarchy, by class for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers beween levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 18. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 18.

IAS 1 Revised Presentation of Financial Statements

The revised standard became effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 became effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised, if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 has not had an immediate impact on the financial statements because the Group does not currently conduct such activity.

IAS 40 Investment Property (Amended)

For financial years beginning on or after 1 January 2009, the scope of IAS 40 changes such that property under construction or development for future use as an investment property is classified as investment property. Therefore, to be consistent with the Group's policy in respect of investment property, such assets are now measured at fair value, with changes in fair value being recognised in the Group Statement of Comprehensive Income when fair value can be determined reliably. However, where fair value is not reliably determinable, the property is measured at cost until the earlier of the date the construction is completed and the date at which fair value becomes reliably determinable. A fair value decrease of £965,000 in respect of investment properties under construction has been recognised in the Group Statement of Comprehensive Income in the year ended 31 December 2009.

IAS 23 Borrowing Costs (Revised)

The revised IAS 23 is effective for accounting periods beginning on or after 1 January 2009 and requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets (such as investment property under construction) if that asset is not held at fair value. This has had no immediate impact on the Group as investment properties under construction are valued at fair value.

The adoption of these standards and interpretations has had no material impact upon the Group's financial statements during the period other than as described in the Investment Property paragraph above. The Group has adopted the above, to the extent applicable, from the relevant effective date.

2.3 Summary of significant accounting policies

Investment properties and investment properties under construction

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

Gains or losses arising from changes in the fair value of investment properties and investment properties under construction are included in the Group Statement of Comprehensive Income in the year in which they arise.

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

Development loans

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

Goodwill arising from acquisition

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any associated costs of investments in corporate acquisitions over the fair value of the identifiable net assets acquired. Goodwill is not amortised but is tested for impairment at least annually. Any impairment is written off in the Group Statement of Comprehensive Income.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the

Notes to the Financial Statements continued

asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Group Statement of Comprehensive Income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Group Statement of Comprehensive Income.

Income

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

Rental income

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

Interest income

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

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short term deposits, including any bank overdrafts, with an original maturity of three months or less.

Trade and other payables

Trade payables are recognised and carried at their invoiced value inclusive of any VAT that may be applicable.

Bank loans and borrowings

All loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs the Group incurs in connection with the borrowing of funds.

Conversion to UK-REIT

The Group's conversion to UK-REIT status was effective from 1 January 2007. Conversion to a UK-REIT results in, subject to continuing relevant UK-REIT criteria being met, the Group's property profits, both income and gains, being exempt from UK taxation from 1 January 2007. On conversion to a UK-REIT, the Group was subject to a one off taxation charge based on the value of the properties as at the date of conversion, amounting to £5.2million. This amount is payable over four years.

Taxation

Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Group Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

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

Financial instruments

Financial assets at fair value through profit or loss

'Financial assets at fair value through profit or loss' include financial assets designated upon initial recognition as fair value through profit and loss. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS39. Financial assets at fair value through profit and loss are carried in the Balance Sheet at fair value with gains or losses recognised in the Group Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is de-recognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-though' arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements continued

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments (derivatives) and hedge accounting

The Group uses interest rate swaps to help manage its interest rate risk.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions meet the strict criteria for being described as “effective” in offsetting changes in cash flows of hedged items.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently remeasured at fair value. The fair values of the Group's interest rate swaps are calculated by J.C. Rathbone Associates Limited, an independent specialist which provides Treasury Management Services to the Group.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

- Cash Flow hedges: Where a derivative is designated as a hedge of the variability of a highly probable forecast transaction i.e. an interest payment, the element of the gain or loss on the derivative that is an “effective” hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income i.e. when interest income or expense is recognised.

- Derivatives that do not qualify for hedge accounting by virtue of not meeting the strict criteria for being “effective”: The gain or loss on derivatives that do not qualify for hedge accounting, and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the Group Statement of Comprehensive Income immediately. The treatment does not alter the fact that the derivatives are economic hedges of the underlying transaction.

Dividends payable to Shareholders

Dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements as they are appropriations of income. Furthermore, any final dividends would not be recognised until they have been approved by Shareholders at the Annual General Meeting.

Leases – Group as a lessor

The vast majority of the Group's properties are leased out under operating leases and are included within investment properties. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. Finance income is recognised in the Group Statement of Comprehensive Income so as to achieve a constant rate of return on the remaining net investment in the lease. Interest income on finance leases is restricted to the amount of interest actually received.

2.4 Significant accounting estimates and judgements

The preparation of the Group financial statements requires management to make a number of estimates and judgements. These estimates and judgements affect the reported amounts of assets and liabilities. Estimates and assumptions may differ from future actual results. The estimates and assumptions that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

a) Estimates

Fair value of investment properties and of investment properties under construction

Investment property includes (i) completed investment property; and (ii) investment property under construction. Completed investment property comprises real estate held by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both.

In this financial year, the Group has adopted the amendments to IAS 40. Consequently, investment property under construction is valued at fair value if it can be reliably determined. If a fair value cannot be reliably determined, the investment property under construction is measured at cost.

The market value of a property is deemed, by the independent property valuers, appointed by the Group, to be the estimated amount for which a property should exchange, on the date of valuation, in an arm's length transaction. Properties have been valued on an individual basis, envisaging that they will be sold individually over time. Allowances are made to reflect the purchaser's costs of professional fees and stamp duty.

In accordance with Appraisal and Valuation Standards, factors taken into account are current market conditions, annual rentals, state of repair, ground stability, contamination issues and fire, health and safety legislations.

In determining the fair value of investment properties under construction the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks.

Fair value of derivatives

In accordance with IAS39, the Group values its derivative financial instruments at fair value. Fair value is calculated by J.C Rathbone Associates Limited. The calculation uses a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid point of the yield curve prevailing on 31 December 2009. In this way, the valuations are

Notes to the Financial Statements continued

neutral as to buyer or seller. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

b) Judgements

Leases

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of the vast majority of the properties, which are leased out on operating leases. The Group has entered into a small number of finance lease arrangements where it has determined that it has transferred substantially all the risks and rewards incidental to ownership.

Hedge effectiveness

The Group has a number of interest rate swaps that mature after the Group's bank facilities are due to expire in 2013. In accordance with IAS39, in order to apply hedge accounting in relation to these interest rate swaps, the Group has determined that it is highly probable that the bank facilities will be re-negotiated on expiry in 2013.

2.5 Standards issued but not yet effective

The IASB and IFIC have issued a number of standards and interpretations with an effective date after the date of these financial statements. The directors have set out below only those which may have a material impact on the financial statements in future periods.

Amendment to IAS 17: Leases

This amendment is effective for financial periods beginning on or after 1 January 2010

This amendment deletes much of the existing wording in the standard to the effect all leases of land (where title does not pass) were operating leases. The amendment requires that in determining whether the lease of land (either separately or in combinations with other property) is an operating lease or a finance lease, the same criteria are applied as for any other asset. This may have the impact in future that more leases of land will be treated as finance leases rather than operating leases.

Amendment to IAS 24: Related parties

This amendment provides an exemption from disclosure requirements for transactions between entities controlled, jointly controlled or significantly influenced by the same state ('state-controlled entities'. It also amends the definitions of a related party and of a related party transaction to clarify the intended meaning and remove some inconsistencies. The amendment is expected to be effective for accounting periods beginning after 1 January 2011.

Amendment to IAS 39: Financial Instruments: Recognition and Measurement – eligible hedged items

This amendment was issued in July 2008 and is effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Directors are assessing the impact of this amendment on the Group.

Amendment to IAS 39: Financial Instruments: Recognition and measurement: Reclassification of Financial Assets

This amendment clarifies the effective date of the reclassification of financial assets. The amendment is effective under IFRS but has not yet been endorsed by the European Union and has therefore not been adopted by the Group.

Improvements to IFRS 2009

General improvements to various existing standards will be adopted by the Group with effect from 1 May 2010, subject to endorsement by the European Union.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

These revised standards are effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of any goodwill recognised, the reporting results in the period that an acquisition occurs and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsdiary as well as the loss of control of a subsidiary.

3 Rental and related income

Turnover comprises rental income and finance lease income receivable on property investments in the UK, which is exclusive of VAT. Turnover is derived from one reportable operating segment. Details of the lease income is given below.

Group as a lessor

a) The future minimum lease payments under non-cancellable operating leases receivable by the Group are as follows:

Year ended 31 December 2009				Year ended 31 December 2008			
Less than one year £000s	1-5 years £000s	More than 5 years £000s	Total £000s	Less than one year £000s	1-5 years £000s	More than 5 years £000s	Total £000s
21,312	84,589	263,364	369,265	19,570	77,883	258,928	356,382

b) There were no contingent rents recognised as income in the period.

The rental income earned on operating leases is recognised on a straight line basis over the lease term.

The Group leases medical centres to GPs, PCTs and other healthcare users, typically on a long term occupational leases which provide for regular reviews of rent on an effective upwards only basis.

Notes to the Financial Statements continued

4 Group operating profit/(loss) is stated after charging

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Administration expenses: recurring		
Management fees (note 4a)	**2,426**	2,543
Performance Incentive Fee (note 4b)	**-**	-
Directors' fees (note 4c)	**149**	116
Property management fees and other services payable to NPM	**135**	93
Auditors' remuneration for		
• audit of the Financial Statements	**129**	146
• audit of accounts of subsidiaries of the Company pursuant to legislation	**-**	14
• taxation services - compliance	**94**	71
- advisory	**19**	-
Other professional fees	**236**	183
Other expenses	**272**	356
Total	**3,460**	3,522
Administration expenses: non-recurring		
Goodwill impairment (note 10)	**-**	90
Expenses incurred in prior periods not previously recognised [1]	**-**	597
VAT incurred in prior periods not previously recognised [2]	**-**	107
Release of accruals brought forward [3]	(372)	-
	(372)	794

1 The majority of this charge relates to rental premiums recognised on receipt in 2007 that should have been spread over the rental period. The non-recurring adjustment was considered immaterial for a prior year adjustment ("PYA") so reflected within 2008.

2 During 2008 it was recognised that some of the balance on the VAT control account related to disallowed VAT from prior periods as a result of the Group's partial exemption status. This had not previously been expensed to the Group income statement and was corrected in 2008.

3 Following a review of expenses accruals relating to the acquisition of Cathederal Healthcare Holdings and the REIT conversion charge.

a) Management fees

JOHCML, a wholly owned subsidiary of J O Hambro Capital Management Group Limited, and NPM, a subsidiary of Nexus Group Holdings Limited, are Joint Managers to the Company. Combined management fees (as per the Management Agreement) are 1% p.a. of the first £50million of the property assets of the Group and 0.75% p.a. thereafter, measured on a monthly basis.

The management fee calculated and payable for the period to 31 December was as follows:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Nexus PHP Management Limited ("NPM")	**1,380**	1,394
J O Hambro Capital Management Limited ("JOHCML")	**1,046**	1,149
	2,426	2,543

JOHCML is also Company Secretary.

The Company also paid to NPM £135,000 (2008: £93,000) in respect of property management fees and fees for the preparation of the Group taxation provisions shown on page 55.

As at 31 December 2009, £102,000 of management fees payable to JOHCML were outstanding (2008: £116,000), and £126,000 was payable to NPM (2008: £31,000).

b) Performance Incentive Fee ("PIF")

The Joint Managers are entitled to a performance incentive fee of 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" as derived from the audited financial statements in respect of the accounting period of the Company immediately preceding the proposed date of payment. In the event the Total Return is less than 8%, any deficit in the Total Return has to be made up in subsequent years before any PIF is payable.

The Total Return is determined by comparing the variation in the stated net asset value per Ordinary Share (on a fully diluted basis, adjusting for deferred tax and the REIT conversion charge and adding back gross dividends paid or declared in such period) against the fully diluted net asset value per Ordinary Share from the previous period's audited accounts.

The PIF is calculated on an annual basis, using the audited financial statements for the respective financial period. There is no PIF payable for the years ended 31 December 2009 or 31 December 2008.

Details of the Joint Managers Management Agreement are given in the Directors' Remuneration Report on pages 33 to 34 and the Group Directors' Report on page 25.

c) Remuneration of Directors

Information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on page 33.

5 Finance income

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000 (restated)
Interest income on financial assets		
Bank interest	**4**	164
Development loan interest	**46**	262
Other interest	**36**	63
Swap interest received	**-**	1,535
	86	2,024

Notes to the Financial Statements continued

6 Finance costs

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Interest expense on financial liabilities		
Interest paid		
Swap interest paid	**6,473**	-
Bank loan interest paid	**3,228**	11,874
Other interest paid	**(12)**	44
Notional UK-REIT interest	**103**	151
Bank facility non utilisation fees	**148**	151
Bank charges and loan commitment fees	**327**	306
	10,267	12,526
Derivative fair value result		
At fair value through profit or loss		
Net fair value gain/(loss) on derivatives	**1,318**	(10,655)
	1,318	(10,655)

The fair value gain (31 December 2008: loss) on derivatives recognised in the profit before tax for the year has arisen from the interest rate swaps for which hedge accounting does not apply. A further fair value gain on hedges which meet the effectiveness criteria under IAS39 of £7.7million (31 December 2008: loss of £16.3million) is credited/(charged) directly against equity (see page 73) and is shown as other comprehensive income.

Due to underlying interest rates falling below the level at which the Group has fixed its debt, bank swap interest became payable in the year ended 31 December 2009 while, as a result of the reduction in interest rates, bank loan interest paid was substantially reduced.

Net finance costs are analysed as follows.

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Finance income	**86**	2,024
Finance costs	**(10,267)**	(12,526)
Net finance costs	**10,181**	10,502

7 Taxation

a) Tax expense in the Group Statement of Comprehensive Income

The tax expense is made up as follows:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Current tax		
UK corporation tax	**-**	-
Charge on conversion to UK-REIT status [1]	**-**	160
Total tax charge in Group Income Statement (note 7b)	**-**	160

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2008 - higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £000	2008 £000
Profit/(loss) on ordinary activities before taxation	**10,786**	(23,004)
Theoretical tax at UK corporation tax rate of 28% (2008: 28.5%)	**3,020**	(6,556)
REIT exempt (income)/expense	**(3,052)**	6,610
Charge re conversion to UK-REIT status	**-**	160
Other differences	**(2)**	-
Finance lease adjustment	**4**	(21)
Capital allowances	**-**	(1)
Losses carried forward/(utilised)	**30**	(32)
Current tax charge (note 7a)	**-**	160

1 Conversion to a UK-REIT means that the Group is no longer subject to UK corporation tax. This enables the Group, in 2007, to release deferred tax liabilities in respect of the property acquisitions made in prior periods at the expense of incurring a conversion charge and, in 2008, additional legal costs.

8 Earnings per share

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

	Year to 31 December 2009			Year to 31 December 2008		
	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)	Net loss attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)
Earnings per share[2]	**10,786**	**40,623,413**	**26.6**	(23,899)	38,557,502	(62.0)

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

2 There is no difference between basic and fully diluted EPS.

The adjusted earnings per share reflect the large/one-off items affecting earnings per share during the year as follows:

Notes to the Financial Statements continued

Adjusted earnings per share:

	Year to 31 December 2009			Year to 31 December 2008		
	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)	Net loss attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)
Basic earnings per share [4]	**10,786**	**40,623,413**	**26.6p**	(23,899)	38,557,502	(62.0p)
Adjustments to remove:						
Performance incentive fee [2]	**-**			-		
Goodwill impairment	**-**			90		
UK-REIT conversion charge	**-**			160		
Other non-recurring items	**(372)**			704		
Net property valuation losses/(gains) (Note 10)	**(1,615)**			17,707		
Fair value (gain)/loss on derivatives [3]	**(1,318)**			10,655		
Adjusted basic and diluted earnings per share[4]	**7,481**	**40,623,413**	**18.4p**	5,417	38,557,502	14.0p

Fair value result on derivatives:

	2009 £000	2008 £000
(Gain)/loss on interest rate swaps not qualifying for hedge accounting	**(1,709)**	11,109
Loss/(gain) on revaluation of basis rate swaps	**391**	(454)
Fair value (gain)/loss on derivatives, as above	**(1,318)**	**10,655**

1 Weighted average number of Ordinary Shares in issue during the year.
2 The Performance Incentive Fee depends primarily on revaluation gains, which are eliminated in calculating adjusted earnings per share. No fee was payable in respect of 2009 or 2008.
3 In view of the continuing volatility in the mark to market adjustment in respect of the period end valuation of derivatives that flows through the Group Statement of Comprehensive Income, the Directors believe that it is appropriate to remove the gain or loss in the calculation of adjusted earnings.
4 The 2008 earnings per share has been adjusted, in accordance with IAS33, to reflect the share issuance during the year.

9 Dividends

Amounts recognised as distributions to equity holders in the year:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Scrip dividend in lieu of interim cash dividends	**284**	-
First interim dividend for the year ended 31 December 2009 (8.50p) paid 20 November 2009 (2008: 8.25p)	**2,707**	2,771
Second interim dividend for the year ended 31 December 2008 (8.50p) paid 28 March 2009 (2008: 8.25p)	**2,855**	2,771
	5,846	5,542
Per share	**17.0p**	16.5p

The 26,086,956 New Shares issued by way of the Firm Placing and Placing and Open Offer on 7 October 2009 were not entitled to receive the first interim dividend for the year ended 31 December 2009.

10 Investment properties, investment properties under construction

	Investment properties freehold £000	Investment properties long leasehold £000	Investment properties under construction £000	Total £000
As at 31 December 2009				
As at 1 January 2009	271,880	42,479	2,503	316,862
Additions	205	112	23,096	23,413
Transfer from properties in the course of development upon completion	21,138	-	(21,138)	-
Revaluation for the year	1,197	1,383	(965)	1,615
As at 31 December 2009	**294,420**	**43,974**	**3,496**	**341,890**
As at 31 December 2008				
As at 1 January 2008	235,529	46,195	3,624	285,348
Additions	12,496	4	28,594	41,094
Properties acquired during the year through Northwich and Shavington acquisitions	8,127	-	-	8,127
Transfer from properties in the course of development upon completion	25,666	-	(25,666)	-
Transfer from development properties upon completion	4,049	-	(4,049)	-
Revaluation for the year	(13,987)	(3,720)	-	(17,707)
As at 31 December 2008	**271,880**	**42,479**	**2,503**	**316,862**

Development loans have been reclassified as a current asset (see note 13). This reclassification has no impact on the gross asset value.

Properties have been independently valued at fair value by Lambert Smith Hampton ("LSH"), Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40: Investment Property. LSH confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards (Red Book). The Valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The properties are 100% let and therefore no assumptions are necessary about rental levels for valuation purposes as these are based on actuals. The valuations reflected a 6.0% initial yield and a 6.24% true equivalent yield as detailed on page 6. Where properties are within three months of their reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuer.

In the year ended 31 December 2009 the Group has adopted the improvements to IAS 40 explained on page 44. The amendment has been applied, for investment properties under construction from 1 January 2009. Consequently, investment properties under construction have been valued at fair value by LSH. In determining the fair value, the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuers have used the special assumptions that, as at the

Notes to the Financial Statements continued

valuation date, the developments have been completed satisfactorily, the agreements of leases have been completed and the rents and other tenants lease obligations have commenced. A fair value decrease of £965,000 in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income. Prior year figures have not been restated because any adjustment is deemed to be immaterial. Historically, properties under construction or development were included in the Group Balance Sheet at cost. A provision for impairment would have been, if necessary, to reduce the carrying value to the recoverable amount. No such impairment was deemed necessary for the year ended 31 December 2008.

The historical cost of properties held by the Group, including properties in the course of development, was £284.7million (restated 2008: £281.5million).

Investment additions - prior year

On 4 January 2008, the Group acquired 100% of the Ordinary Share capital of SPCD (Shavington) Limited and SPCD (Northwich) Limited from Sapphire Property Care Developments Limited ("SPCD") for a cash consideration of £4.8million and £3.0million respectively. SPCD (Shavington) owns Rope Green Medical Centre, Shavington and SPCD (Northwich) owns Firdale Medical Centre, Northwich.

The net assets acquired amounted to £7.8million and consisted of properties. There were no fair value adjustments and the post acquisition profits generated by the companies amounted to £403,000. The annual rent roll from the two properties is £443,000.

Book and fair values of the net assets at date of acquisition were as follows:

	SPCD (Northwich) Limited £000	**SPCD (Shavington) Limited £000**	**Total £000**
Investment properties	3,130	4,997	8,127
Trade receivables	17	-	17
Trade payables	(170)	(218)	(388)
Net assets	2,977	4,779	7,756
Goodwill arising on acquisition (note 3)	35	55	90
	3,012	4,834	7,846

The goodwill arising on acquisition of £90,000 related to transaction costs and was written off in the Group Statement of Comprehensive Income in line with the accounting policy.

11 Investments

The subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and shares held
Primary Health Investment Properties Limited (PHIP) [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited (PHIP No. 2) [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited (PHIP No. 3) [1]	Property investment	100%
PHIP CHH Limited [1]	Property investment	100%
PHIP CH Limited [2]	Non trading	100%
PHIP (RHL) Limited [2]	Non trading	100%
PHIP (SSG Norwich) Limited [2]	Non trading	100%
PHIP (Hetherington Road) Limited [2]	Non trading	100%
PHIP (Hoddesdon) Limited [2]	Non trading	100%
PHIP (Milton Keynes) Limited [2]	Non trading	100%
PHIP (Sheerness) Limited [2]	Non trading	100%
AHG (2006) Limited	Non trading	100%
SPCD (Shavington) Limited [2]	Non trading	100%
SPCD (Northwich) Limited [2]	Non trading	100%
Adam 2 (Jersey) Limited [3]	Non trading	100%

1 Subsidiaries directly held by the Company.

2 On 24 December 2008, investment properties held by various subsidiaries were transferred at market value to PHIP (the main trading subsidiary) for administrative convenience and to reduce costs.

3 Incorporated in Jersey.

12 Net investment in finance leases

	31 December 2009 £000	31 December 2008 £000
Amounts due in more than five years	**2,906**	2,842
Amounts due between one and five years	**108**	147
	3,014	2,989
Amounts due in less than one year	**49**	50
	3,063	3,039

There were no additions to finance leases during the year ended 31 December 2009 nor the year ended 31 December 2008.

	31 December 2009 £000	31 December 2008 £000
Gross investment in finance leases	**9,771**	10,085
Less: unearned financial revenues	**(6,708)**	(7,046)
Present value of future minimum lease payment receivables	**3,063**	3,039

Notes to the Financial Statements continued

13 Trade and other receivables

	31 December 2009 £000	31 December 2008 £000
Trade receivables	**442**	240
Prepayments and accrued income	**1,011**	1,189
Other debtors[1]	**486**	661
	1,939	2,090

1 Development loans have been reclassified from Investment Properties - note 10. This reclassification has no impact on the gross asset value.

14 Cash and cash equivalents

	31 December 2009 £000	31 December 2008 £000
Cash held at bank	**212**	675

There is a £10m overdraft facility in place, unutilised as at 31 December 2008 and 2009.

Bank interest is earned at floating rates depending upon the bank deposit rate. Short term deposits may be made for varying periods of between one day and one month dependent upon available cash and the forthcoming cash requirements of the Group. These deposits earn interest at various short term deposit rates.

15 Tax payable

	31 December 2009 £000	31 December 2008 £000
Corporation tax payable	**29**	29

16 Trade and other payables

	31 December 2009 £000	31 December 2008 (restated) £000
Trade and other payables	**1,468**	3,267
VAT	**523**	550
	1,991	3,817

The UK-REIT conversion charge totalled £5.2million, of which £2.9million has been paid, £1.5m is payable within the following twelve months and the balance of £0.8million in instalments over the following year.

17 Term loans

At 31 December 2009, total facilities of £265million including the £10million overdraft facility (2008: £265million) were available. Of these facilities, as at 31 December 2009, £167million was drawn (2008: £206million) and secured by an unlimited guarantee from each subsidiary and a first fixed charge over the ownership of each property. Interest is payable on the loans at a fixed percentage rate above LIBOR and interest payable has fluctuated in the period between 3.2% and 1.2% (2008: 3.0% and 6.8%), including lenders' margins and costs (excluding margins and costs 2.5% and 0.5% (2008: 2.3% and 6.1%). However, the Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 18.

Interest on floating rate loans is payable over 3 months using underlying reference rates (e.g. LIBOR plus margin plus costs). The fixed rate margin above LIBOR is 0.76% (including lenders' costs of 0.06%).

The table below indicates amounts drawn and undrawn from each individual facility.

	Facility		**Amounts drawn**		**Undrawn**	
	31 December 2009 £000	**31 December 2008 £000**	**31 December 2009 £000**	**31 December 2008 £000**	**31 December 2009 £000**	**31 December 2008 £000**
Current						
364 day revolving [1]	**10,000**	10,000	**-**	-	**10,000**	10,000
Non-current						
Term to January 2013 [1]	**140,000**	140,000	**116,500**	129,000	**23,500**	11,000
Term to January 2013 [2]	**50,000**	50,000	**-**	44,100	**50,000**	5,900
Term to January 2013 [3]	**65,000**	65,000	**50,800**	32,500	**14,200**	32,500
	265,000	**265,000**	**167,300**	**205,600**	**97,700**	**59,400**

Provider:

1 The Royal Bank of Scotland plc.

2 Allied Irish Banks, p.l.c.

3 Abbey National Treasury Services plc (branded Santander from January 2010)

Since the term loan facilities have been in existence, the Group has suffered costs in association with the arrangement of the facilities including legal advice and loan arrangement fees. These costs are amortised over the remaining life of the related facility.

Any amounts unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2009 £000	**31 December 2008 £000**
Term loans drawn	**167,300**	205,600
Less: Unamortised borrowing costs	**(1,161)**	(1,512)
Term loans per Group Balance Sheet	**166,139**	204,088

Notes to the Financial Statements continued

18 Derivatives and other financial instruments

An explanation of the Group's financial risk management objectives, policies and strategy can be found on page 11 and in note 18(b) below. All of the Group's financial instruments are Sterling denominated.

a) Financial statements

The maturity profile of interest bearing financial assets and liabilities is as follows:

2009 Fixed rate assets and liabilities

	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000	Effective interest rate %
Finance leases	49[1]	46	28	20	14	2,906	3,063	11.1
Interest rate swap (net liabilities)	(12,145)	-	-	(2,146)[2]	-	(5,790)[2]	(20,081)	4.8
Total	(12,096)	46	28	(2,126)	14	(2,884)	(17,018)	

1 Within one year and over one year may be analysed into a current liability of £12,208,000 offset by an asset of £63,000, as disclosed in the Group Balance Sheet.

2 The subtotal of liabilities over one year of £7,936,000 may be analysed into a non-current liability of £9,322,000 offset by an asset of £1,386,000 in the Group Balance Sheet.

2009 Floating rate assets and liabilities

	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000	Effective interest rate %
Cash	212	-	-	212	0.5
Development loans	-	-	-	-	-
Term loans	-	(166,139)	-	(166,139)	1.6
Total	212	(166,139)	-	(165,927)	

2008 Fixed rate assets and liabilities

	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000	Effective interest rate %
Finance leases	50	50	47	29	21	2,842	3,039	11.1
Interest rate swap (liabilities)	(13,463)[1]	-	-	-	-	(14,923)	(28,386)	4.8
Total	(13,413)	50	47	29	21	(12,081)	(25,347)	

1 This may be analysed into a current liability of £13,917,000 offset by an asset of £454,000, as disclosed in the Group Balance Sheet.

2008 Floating rate assets and liabilities

	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000	Effective interest rate %
Cash	675	-	-	675	1.0
Development loans	282	-	-	282	3.1
Term loans	-	(204,088)	-	(204,088)	2.8
Total	957	(204,088)	-	(203,131)	

Fair values of financial assets and financial liabilities

A comparison of the fair value of the Group's financial assets and financial liabilities is set out below. The fair value of derivatives and borrowings has been calculated using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid point of the yield curve prevailing on 31 December 2009. In this way, the valuations are neutral as to buyer or seller. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

	Book value 2009 £000	Fair value 2009 £000	Book value 2008 £000	Fair value 2008 £000
Trade receivables	**660**	**660**	405	405
Trade and other payables excluding VAT	**(1,468)**	**(1,468)**	(3,267)	(3,267)
Term loan	**(166,139)**	**(166,139)**	(204,088)	(204,088)
Finance leases:				
due within one year	**49**	**303**	50	296
due in more than one year	**3,014**	**4,544**	2,989	4,280
Cash	**212**	**212**	675	675
Development loan interest accrued	**-**	**-**	282	282
Interest rate swap net liabilities	**(20,081)**	**(20,081)**	(28,386)	(28,386)

The Group's borrowings have financial covenants. If these covenants were to be breached, the borrowings would become repayable immediately. These covenants require the Group to disclose gearing and interest cover to the lender on a quarterly basis. Details are given in the Borrowing section of the Operating and Financial Review on page 7.

The 364 day revolving credit facility remained unchanged and in existence throughout the period.

The actual borrowings (not inclusive of any unamortised borrowing costs) of £167.3million (2008: £205.6million) are secured on investment properties held.

Details of the undrawn facilities of the term loan are provided in note 17 on page 61.

Hedging activities

The Group's treasury policies are reviewed periodically by the Board. The policies have the objective of managing the financial risk of investing and borrowing in relation to the business needs of the Group.

The Group's policy is to enter into interest rate swaps as necessary to hedge cash flow risk on bank borrowing requirements over the long term. These hedges are entered into to avoid excessive concentrations of interest rate risk.

Notes to the Financial Statements continued

Floating to fixed rate interest rate swaps that were effective at the year-ends were as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2009			
£50 million callable [1]	August 2007	11 August 2021 [2]	4.835
£38 million callable [1]	August 2007	11 August 2021 [2]	4.740
£55 million	January 2007	January 2010	4.805
£10 million	August 2005	August 2015	4.530
£10 million	March 2008	March 2013	4.895
£10 million	March 2008	March 2013	4.8925
£10 million	June 2006	June 2026	4.810
£183 million			
2008			
£50 million callable [1]	August 2007	11 August 2021 [2]	4.835
£38 million callable [1]	August 2007	11 August 2021 [2]	4.740
£65 million	January 2007	July 2009	4.805
£10 million	August 2005	August 2015	4.530
£10 million	March 2008	March 2013	4.895
£10 million	March 2008	March 2013	4.8925
£10 million	June 2006	June 2026	4.810
£193 million			

1 Callable swaps can be exercised at the bank's option on a set date each quarter at zero cost to the Group. As the terms do not reflect those of the underlying debt facility, hedge accounting cannot be applied.

2 Their final maturity date of the callable swaps is 11 August 2021. However, they may be called at the bank's discretion each quarter. At the year end the next possible call date was 11 February 2010 (11 February 2009) but the bank did not exercise its option.

Floating to fixed interest rate swaps that are effective after the year-ends are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2009			
£75 million	January 2010	July 2010	4.805
£65 million	July 2010	July 2012	4.805
£73.3 million	July 2012	April 2013	4.805
£63.3 million	April 2013	July 2013	4.805
£70 million	July 2013	July 2015	4.805
£80 million	July 2015	July 2016	4.805
£10 million	June 2016	June 2026	4.510
£10 million	July 2016	July 2026	4.400
£10 million	July 2016	July 2026	4.475
£10 million	July 2016	July 2026	4.455
£20 million	July 2016	July 2026	4.47875
£20 million	July 2017	July 2027	4.760

Contract value	Start date	Maturity	Fixed interest per annum %
2008			
£75 million	January 2010	July 2010	4.805
£65 million	July 2010	July 2012	4.805
£73.3 million	July 2012	April 2013	4.805
£63.3 million	April 2013	July 2013	4.805
£70 million	July 2013	July 2015	4.805
£80 million	July 2015	July 2016	4.805
£10 million	June 2016	June 2026	4.510
£10 million	July 2016	July 2026	4.400
£10 million	July 2016	July 2026	4.475
£10 million	July 2016	July 2026	4.455
£10 million	July 2016	July 2026	4.47875
£20 million	July 2017	July 2027	4.760

In addition to the above, the Group entered into a number of basis rate swaps as follows:

Contract value	Start date	Maturity	Interest rate %
£200 million	May 2009	February 2010	LIBOR + 0.18%
£50 million	November 2008	May 2009	LIBOR + 0.26%
£150 million	November 2008	May 2009	LIBOR + 0.26%

The Group has taken advantage of short-term pricing anomalies in the interbank market by entering into basis rate swaps, whereby three month LIBOR has been swapped into one month LIBOR plus a margin, which generates a relatively low risk revenue return. The primary aim is to generate additional revenue and, as such, the basis swaps cannot be included as part of the Group's overall hedging strategy and therefore hedge accounting is not applied. interest income of £470,000 gross was generated on these swaps during the year (2008: £280,000).

b) Risk management policies and procedures

In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in net assets or distributable profits.

The Group's exposure to risk and the Directors' approach to risk management is set out below. The Joint Managers, in close cooperation with the Board, coordinate the Group's risk management.

The objectives, policies and processes for managing the risks and the methods used to measure the risks, that are set out below, have not changed from the previous accounting period.

Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices. This market risk comprises two elements – interest rate risk and other price risk. The Joint Managers assess the exposure to market risk when making each investment decision and monitor the overall level of market risk on the investment property portfolio on an ongoing basis.

Notes to the Financial Statements continued

Interest rate risk
Interest rate movements may affect:

- the level of income receivable on cash deposits;
- the interest payable on the Group's variable rate borrowings;
- fair value of interest rate swaps.

Management of risks
The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility.

The Group, generally, does not hold significant cash balances, with short-term borrowings being used when required. However, when rents are received on the rent quarter days, higher levels of cash may be held until utilised. The Group finances part of its activities through borrowings at levels approved and monitored by the Board.

Interest rate exposure is managed within limits agreed by the Board. Gearing should not exceed 75% of gross assets according to the Articles of Association and in accordance with the bank facility covenants, gearing should not exceed 70% from March 2010 and interest cover should exceed 1.3:1. The Group aims to hedge its exposure to interest rate risk on the term loans by entering into interest rate swaps. At 31 December 2009, the fair value of the interest rate swaps was a net liability of £20.1million (2008: a net liability of £28.4million) and these will impact upon cash flows up to July 2027.

Borrowings subject to swap arrangements had a weighted average interest rate, including the lenders' margin, of 3.2%.

Interest rate exposure
The exposure at 31 December 2009 of financial assets and financial liabilities to interest rate risk is shown by reference to the interest rate profile of the Group and is set out in section (a) of this note on pages 62 to 65.

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances is at a margin of 1% below (2008: 1.0% below) the Bank of England base rate. The weighted average effective interest rate on these investments was 0.5% (2008: 3.7%).
- Interest paid on borrowings under the loan facility is at a margin of 0.76% over LIBOR (including costs) (see note 17 for details of interest rates).

Interest rate sensitivity
The group has used a sensitivity analysis technique that measures the estimated change to the fair value of the Group's financial instruments, to the Group Statement of Comprehensive Income and to equity of either an instantaneous increase or decrease of 0.5% (50 basis points) in market interest rates, from the rates applicable at 31 December 2009, for each class of financial instrument with all other variables remaining contstant. The analysis is for illustrative purposes only as in practice market rates rarely change in isolation.

The sensitivity analysis is based on the following:

- Fair value of derivative financial instruments which are not hedge accounted and which are reflected in the Group Statement of Comprehensive Income.
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair value.
- Changes in interest rates affect the fair value of derivative financial instruments designated as hedging instruments and all interest rate hedges are expected to be highly effective. Such changes in fair value impact on equity in the sensitivity analysis.
- Changes in the fair values of derivative financial instruments and other financial assets and liabilities are estimated by discounting the future cash flows to net present value using appropriate market rates prevailing at the year end.

Sensitivity analysis table

	0.5% decrease in interest rates £000	**0.5% increase in interest rates £000**
At 31 December 2009		
(Decrease)/increase in fair value of financial instruments	(8,551)	8,551
Impact on income statement: gain/(loss)	(2,619)	2,619
Impact on equity: gain/(loss)	(11,170)	11,170
At 31 December 2008		
(Decrease)/increase in fair value of financial instruments	(10,061)	10,061
Impact on income statement: gain/(loss)	2,942	(2,942)
Impact on equity: gain/(loss)	(13,003)	13,003

The above analysis considers the fair value impact of all financial instruments including financial derivatives, cash and cash equivalents, borrowings and other financial assets and liabilities.

Liquidity risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's assets are property investments and are therefore not readily realisable; should the lenders recall the term loans the Group would be exposed to liquidity risk. The Group has also entered into two callable swaps, although these were called before the publication of this Annual Report.

Management of the risk

The Group has borrowing facilities in place, expiring in 2013, as stated in note 17, which it can readily draw upon at any time. At 31 December 2009, it had total loan facilities of £265million (2008: £265million), of which £97.7million was undrawn (2008: £59.4million).

The Group regularly monitors compliance with financial covenants (including future compliance) connected with the term loans. No breaches have been noted to date or are expected.

Notes to the Financial Statements continued

Liquidity risk exposure

The contractual maturities of the financial liabilities at the period-end, based on the earliest date on which payment can be required were as follows:

£000	31 December 2009 Less than one year £000	1–5 years £000	More than 5 years £000	Total £000	31 December 2008 Less than one year £000	1–5 years £000	More than 5 years £000	Total
Trade and other payables	**1,468**	**-**	**-**	**1,468**	3,267	-	-	3,267
Interest rates swaps	**3,796**	**16,515**	**23,534**	**43,845**	2,518	12,410	18,506	33,434
UK-REIT conversion charge	**1,455**	**856**	**-**	**2,311**	1,671	2,305	-	3,976
Term loans	**-**	**167,300**	**-**	**167,300**	4,318	222,870	-	227,188
Total	**6,719**	**184,671**	**23,534**	**214,924**	11,774	237,585	18,506	267,865

Credit risk

The Group trades with credit worthy third parties and all receivable balances are monitored on an ongoing basis.

Maximum exposure to credit risk within the Group is equal to the carrying value of financial assets; such assets include cash and cash equivalents, interest rate swap assets and trade debtors.

The failure of the counterparty to a transaction to meet its obligations under that transaction, could result in the Group suffering a financial loss.

Management of the risk

This risk is managed as follows:

- Transactions involving derivatives are entered into only with reputable banks, the credit ratings of which are taken into account so as to minimise the risk to the Group of default
- Where investment transactions are entered into, the Group utilises a limited number of specialist advisors
- Cash at bank is held only with reputable banks with high quality external credit ratings
- The Group monitors trade receivables for impairment on a case-by-case basis
- A legally binding contract is in existence for each tenant occupying rented properties.

Credit risk exposure

The maximum exposure to credit risk as at 31 December 2009 and 31 December 2008 was as follows:

	31 December 2009 Period end £000	Maximum exposure £000	31 December 2008 Period end £000 (restated)	Maximum exposure £000 (restated)
Trade receivables	**606**	**606**	405	405
Cash at bank	**212**	**212**	675	675
Finance leases receivable	**3,063**	**3,063**	3,039	3,039
Derivative financial assets	**1,449**	**1,449**	454	454
Development property interest	**-**	**-**	282	282
	5,330	**5,330**	4,855	4,855

None of the Group's financial assets were impaired. The Group monitors receivables for impairment on a case-by-case basis.

Credit quality of receivables

	Carrying amount £000	Of which neither impaired nor past due £000	Of which not impaired and past due: less than 30 days £000	between 30 and 60 days £000	between 61 and 90 days £000	between 91 and 180 days £000	more than 180 days £000
As of 31 December 2009							
Trade receivables	606	524	30	-	-	-	52
Cash at bank	212	212	-	-	-	-	-
Development property interest	-	-	-	-	-	-	-
Derivative financial assets	1,449	1,449	-	-	-	-	-
Finance leases receivable	3,063	3,063	-	-	-	-	-
	5,330	5,330	30	-	-	-	52
As of 31 December 2008 (restated)							
Trade receivables	405	256	21	8	6	6	108
Cash at bank	675	675	-	-	-	-	-
Development property interest	282	282	-	-	-	-	-
Derivative financial assets	454	454	-	-	-	-	-
Finance leases receivable	3,039	3,039	-	-	-	-	-
	4,855	4,706	21	8	6	6	108

Since the year end, 93% of the past dues as at 31 December 2009 have been collected, with the remainder being monitored. The Group expects these past dues will be collected in full.

Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at the Group Balance Sheet date of the reporting periods under review are categorised as follows. The accounting policies explain how the category of financial instruments affects their subsequent measurement.

	Carrying amount 31 December 2009 £000	Carrying amount 31 December 2008 £000	Fair value 31 December 2009 £000	Fair value 31 December 2008 £000
Financial assets				
Loans and receivables:				
Cash at bank	**212**	675	**212**	675
Trade and other receivables	**442**	405	**442**	405
Development property interest	**-**	282	**-**	282
Finance leases	**3,063**	3,039	**3,063**	3,039
Financial assets at fair value through profit or loss:				
Basis swaps	**63**	454	**63**	454
Hedge accounted derivatives:				
Derivative interest rate swaps	**1,386**	-	**1,386**	-
	5,166	4,855	**5,166**	4,855

All financial assets were designated as above on initial recognition. This designation is based upon the criteria in IAS39.

Notes to the Financial Statements continued

	Carrying amount 31 December 2009 £000	Carrying amount 31 December 2008 £000	Fair value 31 December 2009 £000	Fair value 31 December 2008 £000
Financial liabilities				
Measured at amortised cost:				
Trade and other payables	**1,991**	3,817	**1,991**	3,817
Borrowings under the term loan facility	**167,300**	205,600	**166,139**	204,088
Financial liabilities at fair value through profit or loss:				
Derivative interest rate swaps (note 18a)	**12,208**	13,917	**12,208**	13,917
Hedge accounted derivatives:				
Derivative interest rate swaps (note 18a)	**9,322**	14,923	**9,322**	14,923
	21,530	28,840	**21,530**	28,840
	190,821	238,257	**189,662**	236,745

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying commodity.

Fair value hierarchy

The Group uses the following hierarchies for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the Group held the following financial instruments measured at fair value and analysed by hierarchy:

	31 Dec 2009 £000	Level 1 £000	Level 2 £000	Level 3 £000
Assets measured at fair value				
Derivative interest rate swaps	1,449	-	1,449	-
Liabilities measured at fair value				
Derivative interest rate swaps	21,530	-	21,530	-

During the reporting period ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital management policies and procedures

The Group's capital management objectives are:

- to ensure that the Group will be able to continue as a going concern, and
- to maximise the income and capital return to its equity shareholders.

The Group aims to achieve this through an appropriate balance of equity capital and debt, as shown below.

The Group's capital at the period-end comprises:

	31 December 2009 £000	31 December 2008 £000
Assets		
Total assets	**348,553**	323,120
Debt		
Term loans	**166,139**	204,088
Equity		
Equity share capital	**30,729**	16,794
Retained earnings and other reserves	**121,186**	61,492
	151,915	78,286
Total capital	**318,054**	282,374
Debt as a % of total capital	**52.2%**	72.3%
Debt as a % of total assets	**47.7%**	63.1%

The Board, with the assistance of the Joint Managers, monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes account of the Joint Managers' views on the market;
- the opportunity to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the potential need for new issues of equity shares; and
- the extent to which profit in excess of that which is required to be distributed should be retained.

The Group is subject to several capital requirements, including those relating to its status as a UK-REIT.

- The bank borrowings under all the loan facilities are not to exceed 70% of gross assets from March 2010.
- Rental income must exceed borrowing costs by the ratio 1.3:1.
- UK-REIT compliance tests. These include loan to property value and gearing tests. The Group must satisfy these tests in order to continue trading as a UK-REIT. This is also an internal requirement imposed by the Articles of Association.

The Group has complied with all known requirements.

Notes to the Financial Statements continued

19 Called up share capital

	31 December 2009 Number	31 December 2009 £000	31 December 2008 Number	31 December 2008 £000
Authorised:				
Ordinary Shares of 50p each	**100,000,000**	**50,000**	50,000,000	25,000
Issued and fully paid at 50p each	**61,457,298**	**30,729**	33,587,094	16,794
At beginning of year	**33,587,094**	**16,794**	33,587,094	16,794
Arising on:				
Placing (24 March 2009)	**1,679,354**	**840**	-	-
Firm placing and placing and open offer (7 Oct 2009)	**26,086,956**	**13,043**	-	-
Scrip issue in lieu of interim cash dividends	**103,894**	**52**	-	-
At end of year	**61,457,298**	**30,729**	33,587,094	16,794

There have been two capital raising exercises during the year (2008: nil).

On 24 March 2009, the Company issued 1,679,354 new Ordinary Shares of 50p each at a price of 220p per share, via a placing, raising £3.7million gross (£3.3million net of expenses).

On 7 October 2009, PHP issued 26,086,956 New Shares by way of a Firm Placing and Placing and Open Offer at a price of 230p per New Share, raising gross proceeds of approximately £60.0million (approximately £57.5million net of expenses). Further details of the capital raisings during the year are given in the Operating and Financial Review on page 9.

The New Shares ranked pari passu with the Existing Ordinary Shares other than in respect of the interim dividend announced on 18 August 2009 relating to the six months ended 30 June 2009 and paid on 20 November 2009.

Following the allotment of the 26,086,956 New Shares the Company has 61,353,404 ordinary shares of 50 pence each in issue, each share carrying the right to one vote.

At 31 December 2009 the issued share capital was 61,457,298.

20 Share premium

	31 December 2009 £000	31 December 2008 £000
Balance at beginning of year	**48,009**	48,009
Premium on issue of 50p Ordinary Shares following placing (24 March 2009)	**2,855**	-
Issue expenses	**(433)**	-
Scrip issue in lieu of interim cash dividends	**233**	-
Balance at end of year	**50,664**	48,009

Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

21 Capital reserve

The capital reserve is held to finance any proposed repurchases of Ordinary Shares, following approval of the High Court in 1998.

	31 December 2009 £000	31 December 2008 £000
Balance at end of year	**1,618**	1,618

22 Special reserve

The special reserve arose on the Firm Placing and Placing and Open Offer on 7 October 2009 and represents the share premium on the issue of the shares net of expenses.

	31 December 2009 £000	31 December 2008 £000
Balance at end of year	**44,442**	-

The issue of shares referred to in Note 19 above was effected by way of a cash box mechanism. A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the parent (Adam 2 (Jersey) Limited) instead of the parent itself. Use of the cash box mechanism has enabled the share premium arising from the issue of shares amounting to £46.9million to be deemed to be a distributable reserve and has therefore been shown as a special reserve in these financial statements. Issue costs of £2.5million have been deducted from the special reserve.

23 Cash flow hedging reserve

The interest rate swap derivatives disclosed on pages 64 and 65 are designated as hedges against the term loans with the exception of the following swaps. Hedge accounting does not apply for these swaps, as they are callable upon at each quarterly anniversary at the counterparty bank's option:

- 4.835% for principal amounts £20million from August 2007 to November 2007, £30million from November 2007 to February 2008, £40million from February 2008 to May 2008 and £50million thereafter.
- 4.74% for principal amounts £25million from August 2007 to May 2008, £33million from May 2008 to August 2008 and £38million thereafter.

The swaps designated as hedges against the term loans are wholly effective hedges under IAS39 and therefore the gain or loss on each instrument is recognised directly in equity, through the cash flow hedging reserve.

	31 December 2009 £000	31 December 2008 £000
Balance at beginning of year	**(14,923)**	1,427
Transfer to Group Statement of Comprehensive Income	**3,148**	(1,535)
Fair value gain/(loss) on cash flow hedge taken to equity	**4,509**	(14,815)
Balance at end of year	**(7,266)**	(14,923)

Notes to the Financial Statements continued

24 Retained earnings

	31 December 2009 £000	31 December 2008 £000 (restated)
Balance at beginning of year	**26,788**	56,229
Retained profit/(loss) for the year	**10,786**	(23,899)
Third interim dividend for the previous period ended 31 December 2008 (2008: 30 June 2007)	**-**	(2,771)
First interim dividend for the current year ended 31 December 2009 (2008: 31 December 2008)	**(2,707)**	(2,771)
Second interim dividend for the period ended 31 December 2008	**(2,855)**	-
Scrip issue in lieu of interim cash dividends	**(284)**	-
Balance at end of year	**31,728**	26,788

25 Net asset value per share

There is no difference between the normal and adjusted net asset values as at 31 December 2009 and 31 December 2008, due to the release of all deferred tax liabilities on conversion to UK-REIT status. Net asset values have been calculated as follows:

	31 December 2009 £000	31 December 2008 £000 (restated)	31 December 2008 £000 (restated & adjusted)
Net assets per Group Balance Sheet	**151,915**	78,286	139,319
Derivative interest rate swaps (net)	**20,144**	28,840	28,840
Basis rate swaps	**(63)**	(454)	(454)
EPRA NAV	**171,996**	106,672	167,705
	Number of shares	**Number of shares**	**Number of shares**
Ordinary Shares:			
Issued share capital	**61,457,298**	33,587,094	61,457,298
Net asset value per Share	**247.2p**	233.1p	226.7p
EPRA NAV per Share	**279.9p**	317.6p	272.9p

EPRA NAV is calculated as Balance Sheet net assets including the valuation result on trading properties but excluding fair value adjustments for debt and related derivatives.

The NAV is based on the restated audited consolidated balance sheet of the Group, as adjusted to illustrate the capital raisings which occurred in 2009, as if these events had been completed on 31 December 2008.

26 Total return per share

The total return per share in a period is calculated as the increase or decrease in net asset value per share (as indicated in note 24) plus the dividend per share paid.

Increase in Net Asset Value per share (note 25)	20.5p
Plus dividend paid per Share	17.0p
	37.5p

27 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 £26.1million plus VAT (2008: £34million plus VAT).

28 Related party transactions

As shown in note 4, the Joint Managers of the Group, NPM and JOHCML, receive a management fee, calculated at a combined 1% of the first £50million of the property assets of the Group and 0.75% thereafter, subject to a minimum of £120,000 per annum, the first £100,000 of which is paid to NPM. NPM also receives a property management fee and a fee for the preparation of the tax provisions, both based on a reimbursement of the costs of services of NPM employees engaged directly on the Group's activities, totalling £135,000 (2008: £93,000). Amounts owing to these related parties are shown in note 4.

The Joint Managers are entitled to a Performance Incentive Fee of 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" as derived from the audited financial statements for the respective financial period. The Total Return is determined by comparing the variation in the stated net asset value per share (on a fully diluted basis, adjusting for deferred tax and the REIT conversion charge and adding back gross dividends paid in such period) against the fully diluted net asset value per share from the previous period's audited accounts. No performance incentive fee was payable in respect of 2009 (2008: Nil).

The terms and conditions of the Management Agreement are described in the Group Directors' Report on page 25 and the Directors' Remuneration Report on page 33. Details of the amounts paid in relation to related party transactions are provided in note 4 on pages 52 and 53.

29 Subsequent events

Since 31 December 2009, the Group has completed the acquisition of £34.5 milliion of properties being the Anchor Meadow Medical Centre, Aldridge for £5.5 million, a portfolio of fourteen medical properties from the Care Capital Plc for £24.2 million and two medical centres developed by Abstract Group for £4.8 million. The details of the effect of these acquisitions on the Group's assets and liabilities have not been disclosed as the Group is currently in the process of determining the fair value of the net assets acquired.

Directors' Responsibility Statement in respect of the Company Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare the Company financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting periods and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Graeme Elliot
Chairman
24 February 2010

Company Financial Statements Independent Auditors' Report

Independent Auditors' Report to the members of Primary Health Properties PLC

We have audited the parent company financial statements of Primary Health Properties PLC for the year ended 31 December 2009 which comprise the Company Balance Sheet, the Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 76, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

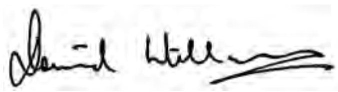
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Company Financial Statements
Independent Auditors' Report continued

Other matter

We have reported separately on the group financial statements of Primary Health Properties PLC for the year ended 31 December 2009.



David Wilkinson
Senior Statutory Auditor

for and on behalf of
Ernst & Young LLP
Statutory Auditor
London
24 February 2010

Company Balance Sheet
as at 31 December 2009

	Notes	31 December 2009 £000	31 December 2008 £000
Fixed assets			
Investment in subsidiaries	5	**139,640**	81,223
Investments: development loans	6	**-**	60
		139,640	81,283
Current assets			
Debtors	7	**3,547**	3,620
Cash at bank	8	**33**	1
		3,580	3,621
Total assets		**143,220**	84,904
Creditors: amounts falling due within one year			
Other creditors and accruals	9	**(48)**	(247)
Net current assets		**3,532**	3,374
Total assets less current liabilities		**143,172**	84,657
Total liabilities		**(48)**	(247)
Net assets		**143,172**	84,657
Capital and reserves			
Share capital	10	**30,729**	16,794
Share premium	11	**50,664**	48,009
Capital reserve		**1,618**	1,618
Special reserve		**44,442**	-
Profit and loss account		**15,719**	18,236
Equity Shareholders' funds		**143,172**	84,657
Net asset value per share			
• basic	12	**232.74p**	252.05p

These financial statements were approved by the Board of Directors on 24 February 2010 and signed on its behalf by:

Graeme Elliot
Chairman

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2009

	Share capital £000	Share premium £000	Capital reserve £000	Cashflow hedging reserve £000	Special reserve capital £'000	Retained earnings £000	Total £000
1 January 2009	**16,794**	**48,009**	**1,618**	**-**	**-**	**18,236**	**84,657**
Profit for the year	-	-	-	-	-	3,328	3,328
Total recognised gains and losses for the year:	**-**	**-**	**-**	**-**	**-**	**3,328**	**3,328**
Placing	840	2,855	-	-	-	-	3,695
Issue expenses	-	(433)	-	-	-	-	(433)
Firm placing and placing and open offer	13,043	-	-	-	44,442	-	57,485
Scrip issue in lieu of interim cash dividends	52	233	-	-	-	(283)	2
Dividends paid:							
First interim dividend for the year ended 31 December 2009 (8.25p)	-	-	-	-	-	(2,707)	(2,707)
Second interim dividend for the period ended 31 December 2008 (8.25p)	-	-	-	-	-	(2,855)	(2,855)
31 December 2009	**30,729**	**50,664**	**1,618**	**-**	**44,442**	**15,719**	**143,172**
1 January 2008	**16,794**	**48,009**	**1,618**	**1,427**	**-**	**33,139**	**100,987**
Loss for the year	-	-	-	-	-	(9,361)	(9,361)
Transfer to profit during the year	-	-	-	(1,427)	-	-	(1,427)
Total recognised gains and losses for the year:	-	-	-	(1,427)	-	(9,361)	(10,788)
Dividends paid:							
Third interim dividend for the period ended 31 December 2007 (8.25p)	-	-	-	-	-	(2,771)	(2,771)
First interim dividend for the year ended 31 December 2008 (8.25p)	-	-	-	-	-	(2,771)	(2,771)
31 December 2008	**16,794**	**48,009**	**1,618**	**-**	**-**	**18,236**	**84,657**

Notes to the Company Financial Statements

1 Accounting policies

Basis of preparation/statement of compliance

These financial statements have been presented as required by the Companies Act 2006 and have been prepared under the historical cost convention except for fair value of financial instruments prepared in accordance with applicable Accounting Standards and policies in the United Kingdom ("UK GAAP").

The Company has taken advantage of the Companies Act 2006 exemption from presenting a Company Profit and Loss Account together with related profit and loss notes. The Company has also taken advantage of the exemption from preparing a cash flow statement, under the terms of FRS 1 (Revised 1996) 'Cash flow Statements'.

The profit attributable to the Parent Company for the financial year amounted to £3.3million (2008: loss of £9.4million).

Convention

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

Conversion to UK-REIT

The Group, of which the Company is parent, converted to a UK-REIT, effective 1 January 2007 and consequently, the Company's profit is exempt from tax under UK-REIT regulations.

Development loans

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

Income

Revenue is recognised in the financial statements as follows.

Interest income

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

Dividends

Dividend income is recognised in the period in which it received Board approval and hence, when the Company's right to receive payment is established.

Investment in subsidiaries

The carrying value of investments in subsidiaries is reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Derivatives, financial instruments and hedging

The Company uses interest rate swaps to help manage its interest rate risk.

Notes to the Company Financial Statements continued

FRS 25 requires financial instruments presentation identical to that required by IAS 32. Therefore the Company has elected to take the exemption provided in paragraph 2d of FRS 29 in respect of providing separate disclosure for these in the Parent Company financial statements.

FRS 26 'Financial Instruments: Measurement' requires the Company to recognise and measure its derivative financial instruments at fair value.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

All derivatives are initially recognised at fair values at the date the derivative is entered into and are subsequently remeasured at fair value. The fair values of interest rate swaps are supplied by J.C. Rathbone Associates Limited, an independent specialist which provides Treasury Management Services to the Company.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

- Cash flow hedges: Where a derivative is designated as a hedge of the variability of a highly probable forecast transaction i.e. an interest payment, the element of the gain or loss on the derivative that is an effective hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the profit and loss account i.e. when interest income or expense is recognised.

- Derivatives that do not qualify for hedge accounting: The gain or loss on derivatives that do not qualify for hedge accounting, and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the profit and loss account immediately.

2 Segmental reporting

The Company operates under one business segment and one geographical segment being the holding Company of subsidiaries that invest in primary health care property within the United Kingdom.

3 Taxation

a) Current tax

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
UK Corporation tax	-	-
	-	-

4 Dividends

Amounts recognised as distributions to equity holders in the year:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Scrip issue in lieu of interim cash dividend	**284**	-
First interim dividend for the year ended 31 December 2009 (8.50p) paid 20 November 2009 (2008: 8.25p)	**2,707**	2,771
Second interim dividend for the year ended 31 December 2008 (8.50p) paid 28 March 2009 (2007: 8.25p)	**2,855**	2,771
	5,846	5,542
Per share	**17.0p**	16.5p

The 26,086,956 New Shares issued by the way of the Firm Placing and Open Offer on 7 October 2009 were not entitled to receive the first interim dividend for the year ended 31 December 2009.

5 Investments

Investment in subsidiaries

	Shares £000	Loans £000	Total £000
At 1 January 2009	90,110	(8,887)	81,223
Loans to subsidiary during the year	-	58,417	58,417
At 31 December 2009	90,110	49,530	139,640
At 1 January 2008	90,110	170,500	260,610
Loans to subsidiary during the year	-	(179,387)	(179,387)
At 31 December 2008	90,110	(8,887)	81,223

6 Development loans

	31 December 2009 £000	31 December 2008 £000
As at beginning of period	**60**	182
Additions at cost	**-**	85
Loans transferred to group undertaking	**(60)**	-
Development loan interest paid	**-**	(207)
	-	60

Figures shown include accrued interest on development loans amounting to £nil (2008: £60,000).

Notes to the Company Financial Statements continued

The subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and shares held
Primary Health Investment Properties Limited (PHIP) [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited (PHIP No. 2) [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited (PHIP No. 3) [1]	Property investment	100%
PHIP CHH Limited [1]	Property investment	100%
PHIP CH Limited	Non trading	100%
PHIP (RHL) Limited	Non trading	100%
PHIP (SSG Norwich) Limited	Non trading	100%
PHIP (Hetherington Road) Limited	Non trading	100%
PHIP (Hoddesdon) Limited	Non trading	100%
PHIP (Milton Keynes) Limited	Non trading	100%
PHIP (Sheerness) Limited	Non trading	100%
AHG (2006) Limited	Non trading	100%
SPCD (Shavington) Limited	Non trading	100%
SPCD (Northwich) Limited	Non trading	100%
Adam 2 (Jersey) Limited	Non trading	100%

1 Subsidiaries directly held by the Company.
2 Incorporated in Jersey.

7 Debtors

	31 December 2009 £000	31 December 2008 £000
VAT recoverable	**3**	36
Other debtors and prepayments	**4**	44
6% Preference dividend due from subsidiary	**3,540**	3,540
	3,547	3,620

8 Cash at bank

	31 December 2009 £000	31 December 2008 £000
Cash held at bank	**33**	1

9 Creditors: amounts falling due within one year

	31 December 2009 £000	31 December 2008 £000
Other creditors and accruals	**48**	247
	48	247

10 Called up share capital

	31 December 2009 Number	31 December 2009 £000	31 December 2008 Number	31 December 2008 £000
Authorised:				
Ordinary Shares of 50p each	100,000,000	50,000,000	50,000,000	25,000
Issued and fully paid at 50p each	**61,457,298**	**30,729**	33,587,094	16,794
At beginning of period	33,587,094	16,794	33,587,094	16,794
Arising on:				
Placing (24 March 2009)	1,679,354	840	-	-
Firm placing and placing and open offer (7 October 2009)	26,086,956	13,043	-	-
Scrip issue in lieu of interim cash dividends	103,894	52	-	-
At end of year/period	**61,457,298**	**30,729**	33,587,094	16,794

There have been two capital raising exercises during the year (2008: nil).

On 24 March 2009, the Company issued 1,679,354 new Ordinary Shares of 50p each at a price of 220p per share, via a placing, raising £3.7million gross (£3.3million net of expenses).

On 7 October 2009, PHP issued 26,086,956 New Shares by way of a Firm Placing and Placing and Open Offer at a price of 230p per New Share, raising gross proceeds of approximately £60.0million (approximately £57.5million net of expenses). Further details of the capital raisings during the year are given in the Operating and Financial Review on page 9.

The New Shares rank pari passu with the Existing Ordinary Shares other than in respect of the interim dividend announced on 18 August 2009 relating to the six months ended 30 June 2009.

Following the allotment of the 26,086,956 New Shares the Company had 61,353,404 ordinary shares of 50 pence each in issue, each share carrying the right to one vote.

At 31 December 2009 the issued share capital was 61,457,298 ordinary shares.

11 Share premium

	31 December 2009 £000	31 December 2008 £000
Balance at beginning of year	**48,009**	48,009
Premium on issue of 50p Ordinary Shares following placing (24 March 2009)	**2,855**	-
Issue expenses	**(433)**	-
Scrip issue in lieu of interim cash dividends	**233**	-
Balance at end of year	**50,664**	48,009

Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

Notes to the Company Financial Statements continued

12 Net asset value per share

	31 December 2009 pence	31 December 2008 pence
Ordinary share - basic	**232.74**	252.05

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £143,172,000 (2008: £84,657,000) and on 61,457,298 (2008: 33,587,094) shares, being the number of shares in issue at the year end.

13 Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £26.1m (2008: £34million).

14 Related party transactions

Details of related party transactions are provided in the Group Directors' Report on page 25, Directors' Remuneration Report on page 33 and notes 4 and 27 to the Group Financial Statements on pages 52 and 53 respectively. There are no employees other than the Directors, listed on pages 21 and 22.

The Company has taken advantage of the exemption available in FRS8 "Related Party Disclosures" not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

Ten year summary of Group key performance indicators

	UK GAAP					IFRS					
	2000	2001	2002	2003	2004	2004	2005	2006	2007[3]	2008[4]	2009
Net assets (£m)	20.4	23.9	29.9	37.9	49.9	39.7	57.1	71.3	124.1	78.3	**151.9**
Net asset value per share (p)											
• basic	129.7	152.5	181.3	226.8	274.7	218.8	251.9	314.5	369.4	226.7	**247.2**
• diluted	125.0	142.2	164.6	200.6	243.7	200.0	246.6	305.1	369.4	226.7	**247.2**
EPRA NAV											
• basic	-	-	-	-	-	-	330.8	408.0	377.1	272.9	**279.9**
• diluted	-	-	-	-	-	-	320.2	392.4	377.1	272.9	**279.9**
Increase/(decrease) in net asset value per share (p)											
• basic	12.3	22.8	28.8	45.5	47.9	NA	33.1	62.6	54.9	(133.6)	**20.5**
• diluted	9.2	17.2	22.4	36.0	43.1	NA	46.6	58.5	64.3	(133.6)	**20.5**
Closing portfolio including development loans and finance leases (£m)	51.8	63.5	80.1	96.3	131.1	131.1	167.1	203.8	288.9	320.2	**344.9**
Annualised rent roll (£m)	4.3	5.0	6.2	6.9	8.4	8.4	10.0	11.3	16.2	19.6	**21.3**
Profit/(loss) before taxation (£m)	1.2	1.6	2.0	2.2	2.5	NA	19.4	18.4	(3.7)	(23.7)	**10.8**
Earnings per share (p)											
• basic	7.1	9.1	11.3	11.8	13.9	NA	59.1	70.3	59.4	(62.0)	**26.6**
• diluted	7.0	8.7	10.4	10.8	12.8	NA	55.4	67.7	59.4	14.0	**18.4**
Interim and final dividend per share (p)	7.0	8.0	9.0	10.0	11.0	11.0	12.0	13.5	21.75	16.5	**17.0**
Total return per share (p)											
• basic	19.3	30.8	37.8	55.5	59.0	NA	45.1	76.1	76.7	(52.0)	**37.5**
• diluted	16.2	25.2	31.4	46.0	54.0	NA	58.6	72.0	87.7	(52.0)	**37.5**
Market price per share at 30 June/31 December (p)	116.5	149.0	180.0	179.0	245.0	245.0	310.5	404.0	314.0	290.5	**289.0**
Movement in Investment Property Databank ('IPD') Index since previous annual report [1 2]	117.8	118.6	119.4	122.7	132.5	100.0	110.4	127.2	120.3	87.7	**93.3**
Movement in diluted net asset value per share since previous annual report [1]	122.5	139.4	161.4	196.7	238.9	100.0	123.3	152.6	184.6	117.2	**123.7**

1 Rebased to 100 at 30 June 1997 (UK GAAP) and rebased to 100 at 30 June 2004 (IFRS).

2 Capital return

3 18 month period

4 Restated - see page 43

The figures for the year 2004 and thereafter are in accordance with IFRS. It is not considered practical to restate figures prior to 2004. The net asset value per share and EPS as at 31 December 2008 have been adjusted to illustrate the capital raisings which occurred in 2009, as if these events had been completed on 31 December 2008.

Shareholder information

Her Majesty's Revenue and Customs ("HMRC") has produced guidance on Real Estate Investment Trusts paying PIDs to non residents and this can be found at the following web site address:
http://www.hmrc.gov.uk/cnr/dt-guide-note-9.htm.

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

Share service

As described in the Group Directors' Report, the Company has made arrangements for a Share Service to be made available to allow investors to purchase the Company's Ordinary Shares. The Primary Health Properties Share Service is operated by Capita IRG Trustees Limited and is designed to allow lump sum and regular savings to facilitate the purchase of the Company's shares. The URL link accessing the detail and forms for the PHP Share Service can be accessed from the Company website or alternatively at: **http://www.capitaregistrars.com/php**

For details of the service please contact:
Capita IRG Trustees Limited
PHP Share Service
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

CIRGT Shareholder helpline: 0871 664 0355
(calls cost 10p per minute plus network charges)

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

As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

Share price

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

Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account you should write to Capita Registrars including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account your tax voucher will be sent to your registered address.

Scrip Dividend Scheme

The optional Scrip Dividend Scheme enables Shareholders to receive new ordinary shares in PHP instead of cash dividends without incurring dealing costs, stamp duty or stamp duty reserve tax by electing to take a scrip dividend instead of a cash dividend. A circular describing the scrip dividend offer will be posted to Shareholders at the appropriate time.

Interim dividend calendar 2010

Announcement date	11 February 2010
Ex dividend date	17 February 2010
Record date	19 February 2010
Post date of Scrip Mandate Forms	2 March 2010
Final date for the receipt of Scrip Mandate Forms	16 March 2010
Interim dividend warrants despatched for payment and definitive share certificates and notional tax voucher to CREST participants posted Pay Date	25 March 2010
Dealings expected to commence in new shares	26 March 2010
CREST accounts credited	26 March 2010

Financial calendar 2010

Financial year end	31 December
Preliminary Results	February
Annual Report	March
Interim cash dividend payment	March
Annual General Meeting	April
Interim end	30 June
Interim figures announced	August
Interim Dividend payment	November

Annual General Meeting

The Company's Annual General Meeting will be held on 27 April 2010 commencing at 10.30am in the Board Room at the Group's registered office at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB.

Taxation status

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

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

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

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

Email ssd@capitaregistrars.com

Postal requests Capita Registrars
Shareholder Services Department
Northern House
Fenay Bridge
Woodsome Park
Huddersfield
West Yorkshire HD8 0GA

Share dealing

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

The Company's registrars are Capita Registrars. In the event of any queries regarding your holding of shares, please contact the registrars on 0871 664 0300 (calls cost 10p per minute plus network charges), e-mail address: **ssd@capitaregistrars.com**.

Changes of name or address must be notified to the registrars in writing at:
Capita Registrars
Shareholder Services Department
Northern House
Fenay Bridge
Woodsome Park
Huddersfield
West Yorkshire HD8 0GA

Capita share dealing services

A quick and easy share dealing service is available to either sell or buy more Primary Health Properties PLC shares. An on-line and telephone dealing facility is available providing Primary Health Properties PLC shareholders with an easy to access and simple to use service.

The table below provides you with details of the associated charges:

	Percentage of trade value	Minimum charge	Maximum charge
Telephone	1.5%	£25.00	£102.50
Internet	1.0%	£20.00	£75.00

There is no need to pre-register and there are no complicated forms to fill in. The on-line and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal on-line or by telephone all you need is your surname, shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest statement or Certificate where it will appear as either a 'folio number' or 'investor code'. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

Shareholder information continued

For further information on this service, or to buy and sell shares, please contact:

- www.capitadeal.com (on-line dealing) (24 hours)
- 0871 664 0384 (calls cost 10p per minute plus network charges) (telephone dealing)
  (8.00am – 4.30pm Monday to Friday)

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 Tim Walker-Arnott on 01483 749020.

Registered No. 3033634

American Depositary Receipts ("ADR") Programme

Primary Health Properties PLC ("PHP") has appointed The Bank of New York as the depositary bank for its sponsored level 1 ADR programme.

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

The ordinary shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Services Authority, and traded on the London Stock Exchange under the symbol "PHP".

All enquiries relating to ADRs should be addressed to:
The Bank of New York
Investor Relations
PO Box 11258
Church Street Station
New York
NY
102886-1258 toll free

Telephone number for domestic callers:	1-888-BNY–ADRS
Telephone number for international callers:	+1-610-382-7836
Email:	shareowners@bankofny.com

What is an ADR programme?

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

Corporate profile

Directors
Graeme Elliot (Chairman)
Alun Jones (Chairman of Audit Committee and Senior Independent Director)
Harry Hyman (Managing Director)
Mark Creedy
Martin Gilbert (William Hemmings: alternate)
James Hambro
Dr Ian Rutter OBE

Company Secretary and Registered Office
J O Hambro Capital Management Limited
Ground Floor, Ryder Court
14 Ryder Street, London SW1Y 6QB
Tel: 020 7747 5678
Fax: 020 7747 5611

Joint Managers
Nexus PHP Management Limited
2nd Floor, Griffin House, West Street, Woking GN21 6BS
Tel: 01483 749020

J O Hambro Capital Management Limited
Ground Floor, Ryder Court
14 Ryder Street, London SW1Y 6QB
Tel: 020 7747 5678

Registrars
Capita Registrars
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield, West Yorkshire HD8 0GA

General enquiries:	0871 664 0300*
Email:	ssd@capitaregistrars.com
Online dealing:	www.capitadeal.com
Telephone dealing:	0871 664 0384*
Share service:	www.capitaregistrars.com/php
CIRGT Shareholder helpline:	0871 664 0300*

*calls cost 10p per minute plus network charges

Stockbrokers
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square, London EC4M 7LT

KBC Peel Hunt Ltd
111 Old Broad Street, London EC2N 1PH

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

Tods Murray LLP
Edinburgh Quay, 133 Fountainbridge, Edinburgh EH3 9AG

Auditors
Ernst & Young LLP
1 More London Place, London SE1 2AF

Bankers
The Royal Bank of Scotland Plc
280 Bishopsgate, London EC2M 3UR

Allied Irish Banks, p.l.c.
St Helen's, 1 Undershaft, London EC3A 8AB

Abbey National Treasury Services plc
2 Triton Square, Regent's Place, London NW1 3AN

Environmental consultant
Collier & Madge
One Great Cumberland Place, London W1H 7AL

Property Valuer
Lambert Smith Hampton Group Limited
Interchange Place, Edmund Street, Birmingham B3 2TA

Craig y don Medical Practice
Llandudno, Gwynedd
750 sq m, purchased January 2005 at a cost of £1.9m

A purpose built medical centre in Llandudno, North Wales. The building is let to a GP practice and a Lloyds Pharmacy. The centre was developed in 2005 by Sapphire Primary Care Developments.

Primary Health Properties PLC

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

Telephone:	01483 749 020
PHP website:	www.phpgroup.o.uk
NEXUS website:	www.nexusgroup.co.uk