Primary Health Properties PLC

Annual Report

for the year ended
31 December 2010

The Quay Health Centre, Connahs Quay, North Wales
3,500 sq m, purchased July 2010

A new, purpose built health centre serving 16,500 patients, fully let to three GP Practices, North East Wales NHS Trust and the local council.

Contents

Cover picture: The Quay Health Centre, Connahs Quay, North Wales

Group Financial Highlights

Operating profit before revaluation result and change in fair value of derivatives rose from £7.9million to £9.1million; profit after tax for the year rose by £14.9million to £25.7million

Payment of 17.5p of dividends during the year (2009: 17.0p); 9.00p second interim dividend for 2010 declared, payable on 31 March 2011

Basic net asset value increased to 262.3p per share (2009: 247.2p)

EPRA net asset value of 311.5p per share (2009: 279.9p)

Loan to Value ratio 57.6% at 31 December 2010 against covenant of 70% (2009: 48.9%)

Interest cover was 2.1 times compared to a covenant requirement of 1.3 times (2009: 2.2 times)

Group Operational Highlights

Total rents received by the Group increased by £5.6million to £26.6million

33 high quality properties acquired during the year, at a cost of £102.6million, adding £6.71million to the rent roll

Portfolio value increased from £341.9million to £469.3million

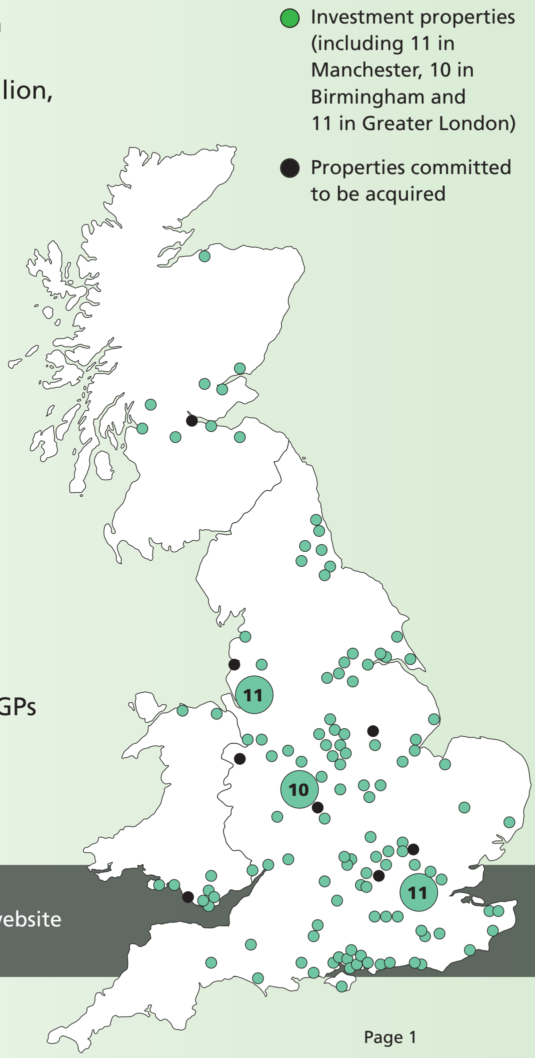
Including commitments, as at the date of this report the portfolio value is now £507.8million at an initial yield of 5.8%

Average annualised uplift of 3.2% on reviews completed in the year, combined with acquisitions, increased contracted rent roll to £28.0million

Portfolio 100% let

Review of Joint Manager Agreement reduces marginal cost of management for gross assets over £500million to 0.525% from 0.75% and over £750million to 0.4375%

Health and Social Care Bill proposals for England should enhance role of GPs and lead to increased demand for modern primary healthcare facilities in the medium term



PHP's properties
PHP has 148 completed properties and eight that it has committed to acquire. Visit the Group's website **www.phpgroup.co.uk** for more information on properties contained within the portfolio.

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

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

The Manor Practice, Southwick, East Sussex
800 sq m, purchased July 2010

A modern purpose built medical centre, developed in 2007 and acquired by PHP as part of the Health Investments portfolio. The centre is let to a seven doctor practice, providing services to over 9,500 patients.

Operating and Financial Review

Overview

After a rise in capital values in the first half of the year, the second half of 2010 has seen stability in the market place for primary health property. The niche market in which we operate has good fundamentals and there is continued demand for the provision of modern primary health facilities from tenants, investors and the NHS. The Group has an excellent portfolio of modern properties with secure long leases and high quality tenants, backed by the Government. At 31 December 2010, the 148 delivered properties were occupied by 866 GPs serving nearly 1.5million patients. Our buildings are all used in the provision of primary care, which is the front line of delivery of NHS services. Spending on healthcare through the NHS has been ring fenced in real terms in recent budget announcements and primary care activities are set to be expanded as part of the changes to be brought in by the Health and Social Care Bill published in January 2011.

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 2010 is set out below:

	2010 £m	2009 £m
Annualised rent roll [1]	**28.0**	21.3
Rental and related income	**26.9**	21.3
Expenses	**(5.0)**	(3.3)
Operating profit before revaluation result and financing	**21.9**	18.0
Net financing costs	**(12.8)**	(10.1)
Operating profit before revaluation result and fair value (loss)/gain on interest rate swaps	**9.1**	7.9
Fair value (loss)/gain on interest rate swaps	**(4.7)**	1.3
Revaluation gain on property portfolio	**22.8**	1.6
Profit before tax	**27.2**	10.8
Dividends paid	**10.8**	5.8

1 On completed properties

Interim dividends were paid on 26 March 2010 and 29 October 2010, both at 8.75p per ordinary share. Further details of the Group’s tax status and distributions to Shareholders are given on pages 79 and 80.

Rental growth

The Group achieved weighted average annual rental growth on reviews completed in the year to 31 December 2010 of 3.2% (2009: 3.1%). For a typical three year review pattern this equates to a rental uplift of 10.0% (2009: 9.4%).

Traditionally, the rate of rental growth has been correlated to the underlying rate of inflation in the wider economy. In addition, the ever increasing specification requirements of the NHS for new buildings, requiring higher energy efficiency and reduced carbon footprints, is expected to drive replacement costs higher, which together with inflation should continue to justify higher rents.

Operating and Financial Review continued

Portfolio activity and valuation

The table below sets out the Group's real estate portfolio.

	2010 £m	2009 £m
Investment properties	**462.1**	338.4
Properties in the course of development	**7.2**	3.5
Total properties	**469.3**	341.9
Finance leases	**3.1**	3.0
Total owned and leased	**472.4**	344.9
Committed as at 31 December	**31.2**	26.1
Total owned, leased and committed	**503.6**	371.0
Closing annualised rent roll (on completed properties)	**28.0**	21.3

The freehold, leasehold and development properties of the Group have been independently valued at open market value by Lambert Smith Hampton, Chartered Surveyors and Valuers ("LSH"), as at 31 December 2010. Yields in the primary care property market have tightened and stabilised during the year and the property portfolio was valued at £469.3million at 31 December 2010. This represents a true equivalent yield of 6.0% (2009: 6.2%) and an initial yield of 5.8% (2009: 6.0%) and gave rise to a property revaluation gain of £22.8million compared to £1.6million in 2009.

Acquisitions

The Group completed the purchase of the following properties during the year that it had previously committed to acquire.

Property	Development cost £m	Occupational tenants
Sheffield	3.0	GP practice and pharmacy
Treharris	4.6	GP practice, LHB accommodation and a pharmacy
Connah's Quay	9.7	Three GP practices and LHB accommodation

The Group also purchased 33 completed investment properties during the year including the Health Investments and Care Capital portfolios, which each comprised 14 health centres. Fully let investments were acquired in the period at the following locations:

Aldridge, West Midlands
Basingstoke, Hampshire [1]
Bitterne, Southampton, Hampshire [1]
Burnley, Lancashire [2]
Chafford Hundred, Essex [2]
Chalford, Gloucestershire [2]
Castleford, Yorkshire [1]
Consett, County Durham [2]
Darlington, County Durham [2]
Eastbourne, Sussex [1]
Fareham, Hampshire [1]
Farnborough, Hampshire [1]
Farnham, Hampshire [1]
Flansham, Bognor, Sussex [1]
Hinckley, Leicestershire [2]
Hornchurch, Essex [2]
Hornsea, East Yorkshire
Horley, Surrey [1]
Kesgrave, Suffolk [2]
Lanark, Scotland
Leamington Spa, Warwickshire [2]
Leigh, Manchester
Lydney, Gloucestershire [2]
Maywood, Bognor, Sussex [1]
Mitcham, Surrey [1]
Portslade, Sussex [1]
Restalrig, Edinburgh [2]
Southwick, Brighton, Sussex [1]
St Marys, Southampton, Hampshire [1]
Stockton on Tees, County Durham
Stoneham, Southampton, Hampshire [2]
Watlington, Norfolk [2]
Wingate, County Durham [2]

1 Purchased as part of the Health Investments Portfolio ("HI")
2 Purchased as part of the Care Capital portfolio

Asset management

2010 has been a busy year in terms of asset management activities. Enhancement projects were completed at eight sites. Four of these included surgery leases (with a combined total rent in excess of £500,000 pa) which have been extended by between 10 and 15 years, increasing the guaranteed longevity of Group income. The addition of a pharmacy at Burton Latimer was started on-site, with completion expected in April 2011, and is pre-let to Lloyds Pharmacy. Terms have been agreed for projects at a further five sites to be undertaken in 2011.

Disposals

There were no disposals during the year.

Commitments

As at 31 December 2010, the Group has committed to acquire the following health centres at dates in the future:

Contracted in 2010	Total commitment £m	Outstanding £m	Details
South Queensferry	4.3	4.3	1,442 sq m medical centre (six GP practice and NHS Trust), constructed in 2002
Chesham	5.6	4.6	1,802 sq m medical centre (eight GPs in two practices and PCT) and 130 sq m pharmacy
Oswestry	8.8	5.1	3,750 sq m medical centre (four GP practice and PCT) with 804 sq m expansion space and 75 sq m retail unit
Blackpool	4.1	4.1	1,493 sq m medical centre (six GP practice and PCT) and 120 sq m pharmacy
Allesley	2.8	2.2	795 sq m medical centre (five GP practice) with 294 sq m expansion space and 154 sq m pharmacy
Total new commitments	25.6	20.3	
Pre-existing commitments			
Shefford	5.5	5.3	1,792 sq m medical centre (seven GP practice and PCT) with 96 sq m pharmacy
Cowbridge	6.6	5.6	2,450 sq m medical centre (10 GPs in two practices and NHS Trust) with 96 sq m pharmacy
Total commitments at 31 December 2010	**37.7**	**31.2**	

All commitments are 100% pre-let. On 18 February 2011, the Group entered into an agreement to purchase a newly developed health centre at Newark with a committed cost of £4.2million. This asset comprises a 1,275 sq m GP practice and a 159 sq m pharmacy.

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 investment portfolio based on a discounted cash flow ("DCF") analysis. The DCF valuation of delivered and committed assets as at 31 December 2010 was £554.3million compared to the market value of £503.6million, including cash flows on commitments from their anticipated completion date. The difference in value of £50.7million represents an additional 80.7p of net asset value per share. The DCF analysis covers the remaining term of each lease and a terminal value on a property-by-property basis, with current passing rent until expiry totalling £378.2million, contributing 68.2% of the DCF valuation.

Operating and Financial Review continued

The assumptions used in the DCF analysis are:

- A discount rate of 7% (2009: 7%)
- An average annual increase in the individual property rents at review of 2.5% (2009: 2.5%)
- Capital growth in residual values of 1% per annum (2009: 1%)

DCF values using alternative discount rates would be as follows:

Discount rate	Value	Impact on NAV per share
6.50%	£573.3m	111.7p
7.50%	£516.7m	21.5p

Portfolio performance

The PHP portfolio is a founder member of the IPD Healthcare Property Index, whose constituents include approximately 50% Primary Care assets. As a specialised index it is published on an annual basis, with 2010 figures to be released in May 2011. Accordingly, PHP is not able to benchmark its performance against the sector index at this time, but will provide an update together with its interim statement later in 2011.

The table below details the performance of the Group's portfolio as compared to the All Property Index and recognised alternative asset classes. Focusing on property returns, the income component of the return on both the PHP portfolio and the IPD All Property Index has been relatively constant at approximately 6% per annum. In addition to the greater security of income from government backed tenants, the benefits of the PHP portfolio are illustrated by the relative stability of the capital element of returns, where PHP's health sector valuations have been significantly less volatile than those of other real estate sectors through the recent turbulent period for property markets.

Performance for year ended 31 December 2010	1 year	3 years
PHP portfolio return	10.2%	4.9%
IPD All Property Index total return	15.2%	(2.5%)
Equities	14.5%	1.4%
Bonds	9.1%	7.7%

Net assets and EPRA NAV

The European Public Real Estate Association ("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.

	2010	2009
Net assets	**£164.7m**	£151.9m
Net asset value per share	**262.3p**	247.2p
EPRA net asset value per share	**311.5p**	279.9p

Revenue and administrative expenses

At a trading level, revenues for the year ended 31 December 2010 rose to £26.9million as a result of income from acquisitions, new deliveries and favourable rent reviews. Operating profit before the property revaluation gain and the change in the fair value of interest rate swaps was £9.1million. An exceptional charge of £1.6million was incurred in respect of converting acquired companies to REIT status during the year. Administrative expenses were slightly higher during 2010 mainly due to additional management fees commensurate with the increase in the portfolio and professional fees incurred as the Group explores refinancing options.

Financing

The table below summarises the debt facilities available to the Group as at 31 December 2010. The weighted average duration of Group debt was 4.5 years, with a weighted average cost of debt including the non-floating element of fixed rate swaps of 4.57 %. As part of the Board's continuing policy to have secured facilities to cover the commitments of the Group, a new £25million facility was completed with Aviva on 15 December 2010.

All loans are interest only unless stated.

Facility	Type	Basis	Term	Maximum credit	Drawn at 31 Dec 2010	Headroom
Expiring within 12 months						
National Westminster Bank plc	Term loan	Floating rate	31 May 2011	£3,350,000	£3,000,000	£350,000
Royal Bank of Scotland plc	Overdraft	Floating rate	30 Nov 2011[1]	£10,000,000	-	£10,000,000
Expiring after more than 12 months						
Royal Bank of Scotland plc	Term loan	Floating rate	31 Jan 2013	£140,000,000	£134,300,000	£5,700,000
Allied Irish Bank	Term loan	Floating rate	31 Jan 2013	£50,000,000	£37,900,000	£12,100,000
Santander	Term loan	Floating rate	31 Jan 2013	£65,000,000	£65,000,000	-
Aviva[2]	Term loan	Fixed rate[3]	31 Jan 2032[4]	£28,140,297	£28,140,297	-
Aviva	Term loan	Fixed rate	14 Dec 2022	£25,000,000	-	£25,000,000
				£321,490,297	£268,340,297	£53,150,000

1 Renewable on a 12 month basis
2 Acquired within the HI portfolio acquisition
3 Loan is amortised over period to maturity
4 Date of maturity of longest dated tranche

Existing term loans totalling £255million fall due for renewal on 31 January 2013. In order to secure the longer term financial stability of the Group and provide capacity for future acquisitions, the Joint Managers have entered into discussions with its lead bankers to re-finance the Term Loans and enlarge the overall facilities made available to the Group. It is envisaged that this will include introducing new banks to the Group's pool of lenders. Separately, the Group has received heads of terms for a £50million interest only facility with a new lender.

The loan to value ratio at 31 December 2010 was 57.6% (2009: 48.9%) compared to a maximum covenanted level of 70.0%. Interest cover was 2.1 times compared to a minimum covenanted level of 1.3 times (2009: 2.2 times).

Operating and Financial Review continued

Interest rate hedging

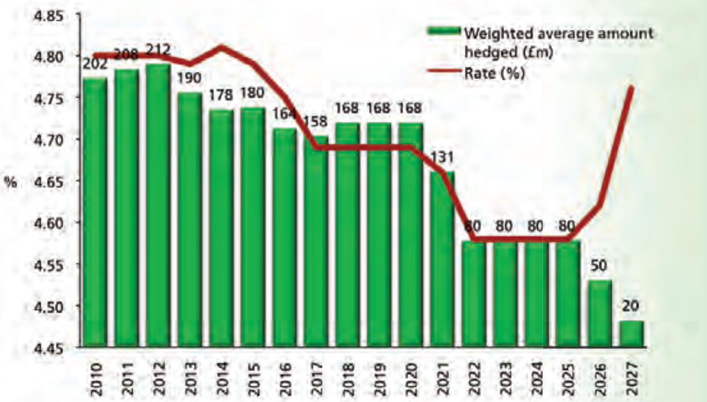
The amount of fixed rate cover in place at 31 December 2010 was £208million. This included £88million of swaps that are callable at the option of the bank on a quarterly basis. These were not called on 11 February 2011 and the next date on which they may be called is 11 May 2011. Basis rate swaps totalling £200million matured on 11 February 2010.

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-model movement on these is matched against the hedged liability in the Balance Sheet. The mark-to-model liability of the Group's "effective" interest rate swaps increased by £6.0million in the year to £30.9million (2009: decreased £7.7million) reflecting the decrease in medium term interest rates year-on-year and continued volatility. There is no cash flow impact from these mark-to-model adjustments but the net asset value has been reduced by this year's losses. This loss is charged directly to reserves but is included in the Statement of Comprehensive Income on page 39. The revaluation of swaps regarded as ineffective for IAS39 purposes resulted in a loss of £4.7million (2009: gain £1.7million), which is included in the profit for the period.

The mark-to-model value fluctuates with movements in term interest rates and, in the case of the callable swaps, also with market volatility. A further valuation undertaken as at 21 February 2011, valued the Group's total mark-to-model liability at £21.9million, a decrease of £7.7million from the 31 December 2010 figure, as forward rates have risen since that date.

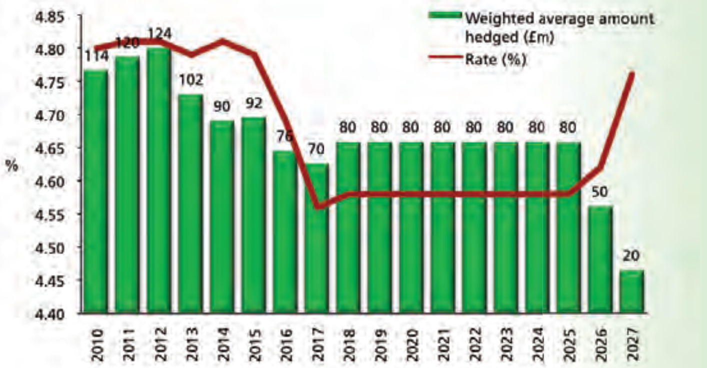
Finance and interest rate hedging (assuming callable swaps are not called)

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 assume that term loans held by the Group which expire in 2013 will be renewed.

Management arrangements

On 21 February 2011, the Management Engagement Committee approved favourable changes to the terms of the Management Agreement which will be of benefit to Shareholders as the assets under management increase. The incremental fee payable to the Joint Managers under the Management Agreement as gross assets increase above £500million will be reduced. Full details are included in the Group Directors' Report on page 26.

Details of management fees payable to the Joint Managers are in the Group Directors Report on pages 25 to 27.

Key Performance Indicators ("KPIs")

Objective	Metric	Performance
• To deliver sustainable long-term shareholder returns	• Sustained real growth in EPS • Sustained dividend growth • Growth in NAV	• Turnover rose to £26.9million from £21.3million • Adjusted EPS fell from 18.4p to 14.7p • Dividend grew for eleventh year to 17.5p per share, 2.9% higher than in 2009 • Basic NAV increased from 247.2p to 262.3p • EPRA NAV grew from 279.9p to 311.5p
• To maximise the returns from the investment portfolio	• Out-performance versus IPD benchmark	• Three year performance was better than the IPD benchmark • Rental growth of 3.2% p.a. • Portfolio valuation uplift of £22.8million for the year
• To manage our balance sheet effectively	• Maintain appropriate balance between debt and equity within covenanted levels	• Total debt increased in year due to acquisitions • Value of real estate portfolio increased • Equity issue as part of HI portfolio acquisition • Gearing increased to 57.6% but is well within covenant limits
• To identify new units to purchase	• Future commitments • Deliveries • Acquisitions	• 33 fully let investment properties were acquired • Acquisitions and deliveries in the year added £6.7million to annual rent roll • New development commitments of £25.6million were entered into during the year • New commitment of £4.2million entered into since the year end
• To maximise rent roll from the portfolio and maintain security of income • To minimise vacancy in the portfolio • To complete purchase of properties under development	• Growth in annualised rent roll • Composition of tenant covenant • Long average remaining lease term • Maintain a minimal percentage of voids	• New deliveries added £6.7million to the rent roll • 90% of income effectively paid for by the NHS, with the balance payable by pharmacies • Weighted average lease length (including commitments) of 16.9 years • The portfolio was 100% let at the year end

A ten year summary of the Group's Financial Performance is provided on page 82.

Operating and Financial Review continued

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. Note 20 on page 62 provides further detail and quantitative information. The Board has reviewed and agreed policies for managing each of the risks and uncertainties which are summarised below, but regards the first three items as its principal risks at the present time:

Risk description	Impact/risk	Mitigation and management
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 debt market 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 mitigated through use of swaps
Tax risk	• Increased taxes payable as a result of Government policy changes • Compliance with the Real Estate Investment Trust (REIT) taxation regime	• Ongoing 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	• 100% of the portfolio let • Demographics increasing demand for healthcare facilities • Effectively upwards only rent reviews and weighted average lease length of some 16.9 years (including commitments)
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 predominantly 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 are in place which are regularly reviewed by the Management Engagement Committee

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 considers environmental matters as part of the assessment of the suitability of purchasing new medical centres to expand the portfolio, either through forward purchase development agreements or through open market purchases. PHP undertakes an assessment of environmental risk as an important element of its due diligence process obtaining an environmental desktop study and energy efficiency certificates. PHP has engaged an Environmental Consultant, Collier & Madge, to help in this process. PHP's ability to influence the energy efficiency of buildings is limited where completed properties are acquired and let on FRI terms. Where possible and as a norm for newly built premises, environmental issues are included in the leases entered into by the medical practitioners. More generally, buildings acquired are usually specified to meet the NHS's exacting standards which provide some environmental consideration.

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.

Relationships

Other than Shareholders, the Group's performance and value are influenced by other stakeholders, principally its lessees (the GPs, NHS organisations 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, NHS organisations, 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 provision in the UK. There remains a strong demand for larger purpose built primary care centres from operators, and we also see evidence of more institutional and corporate interest in investing in the sector.

The underlying property portfolio remains attractive, particularly in today's market. It currently offers 100% occupancy with some 90% of rent roll effectively being paid for by the Government and has an unexpired lease term of almost 17 years. We are recording pleasing rental increases and the new procedure for rent appeals has started to yield positive results.

2010 was a very active year in terms of acquisitions. The structural changes announced and to be implemented into the NHS are likely to bring greater opportunities for the deployment of capital, but inevitably have brought about a reduction in the number of new projects being approved. We do, however, have a good pipeline of potential deals that we are working on for 2011.

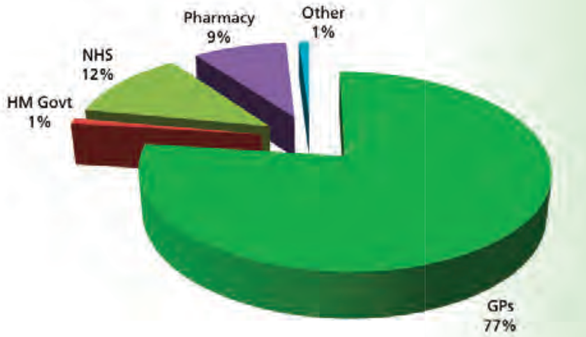
The position of primary care in the health economy, the stable outlook for commercial property generally and the excellent income characteristics of our portfolio bode well for the future. We look forward to reporting further progress in due course.

Graeme Elliot
Chairman
23 February 2011

Property Portfolio Analysis

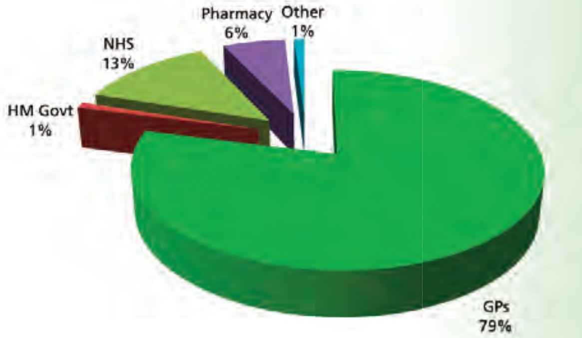
Covenant analysis by annual rent

The chart shows the percentage of the Group's portfolio by rent roll derived from each major tenant class: GPs, NHS, HM Government, pharmacy operators and others.



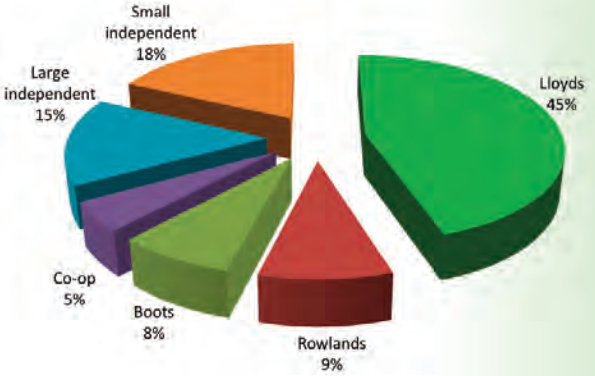
Tenancy class split by floor area

The chart indicates tenancy split by floor area occupied.



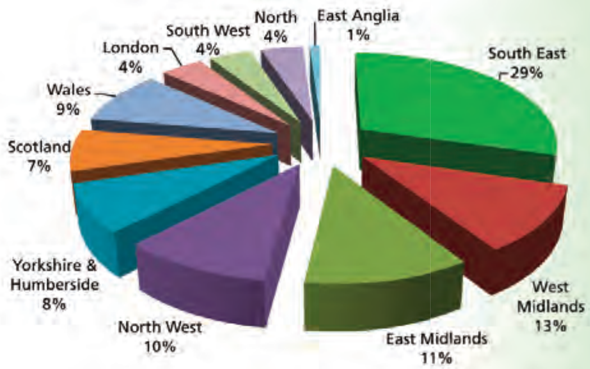
Analysis of rental income by pharmacy operator

The chart shows the breakdown of the 9% of total rent received from pharmacy operators. 67% is derived from well known brands.



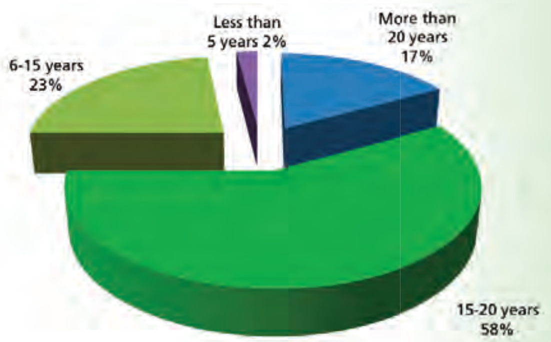
Analysis of rental income by geographic region

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



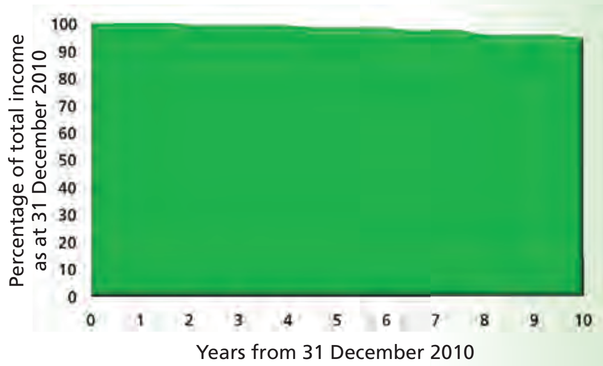
Analysis of annualised rent by unexpired lease term

The chart demonstrates that the Group has in excess of 75% of leases with a life of 15 years or longer. The weighted average lease length (including commitments) is 16.9 years.



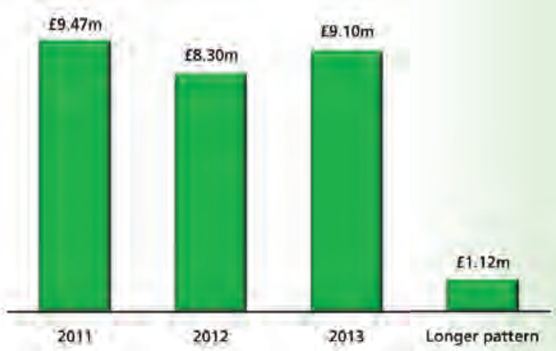
Security of income by term certain

The chart shows that by year 10, the Group would still be receiving 94% of its current income and by year 15, 63%, taking no account of any lease renewals or rent reviews during the period.



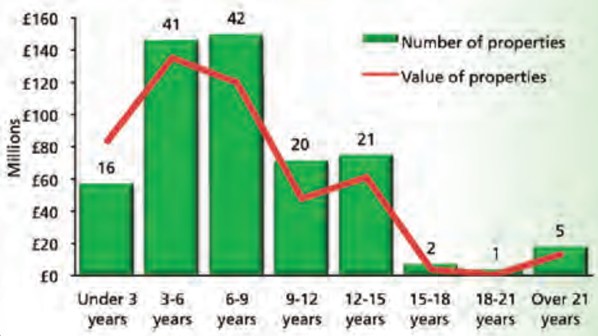
Forthcoming rent reviews

The chart shows the annual amounts of rent falling due for review in each of the next three years. £1.12million of rent is reviewed on a longer pattern and £745,678, included in 2011, 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.



Acquisition Activity

A selection of the 33 assets added to the portfolio in 2010

The Beggarwood Surgery, Basingstoke

The Beggarwood Surgery is a purpose built, 700 sq m, two storey medical centre let to a doctor's practice and a pharmacy. The surgery opened in 2004 to provide GP services to Kempshott Park, a new estate on the periphery of Basingstoke.

The centre serves approximately 7,000 patients and was brought into the PHP portfolio as part of the Health Investments acquisition completed in June 2010.

Mile Oak Medical Centre, Brighton

Mile Oak Medical Centre was brought into the PHP portfolio in June 2010 as part of the Health Investments acquisition.

The centre comprises a modern L-shaped building providing surgery accommodation over two storeys with an attached pharmacy on the ground floor. The property extends to 1,000 sq m and was completed in July 2005. The centre is home to a three GP practice and serves approximately 8,000 patients.

Commitments

Some examples of PHP's commitments to acquire newly developed primary healthcare premises

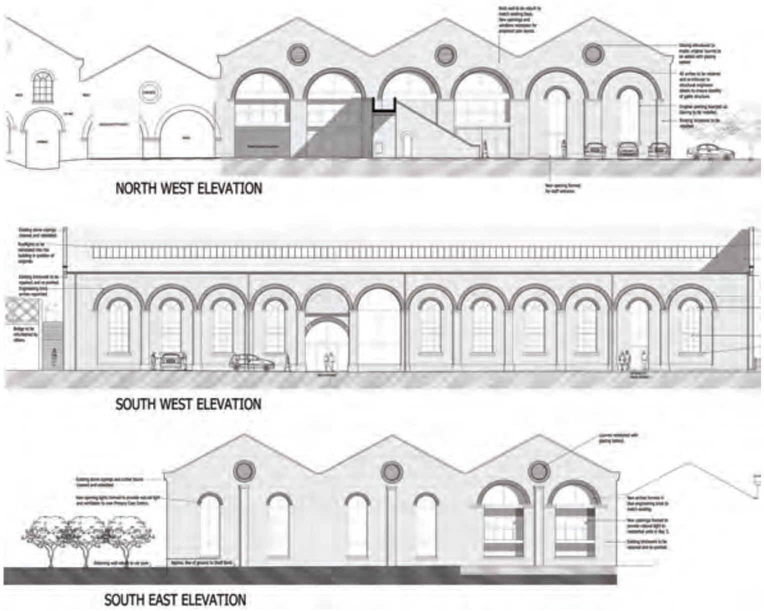
Allesley Park, West Midlands

This is a new, purpose built health centre in the course of development, to replace the existing outdated 1960's surgery in Allesley (approximately three miles west of Coventry). 1,243 sq m comprising a medical centre (with associated expansion space) and a pharmacy. The development will have surgery accommodation across two floors and house a five partner practice, currently serving 14,850 patients. PHP is committed to purchasing the completed building once a number of conditions precedent have been satisfied.

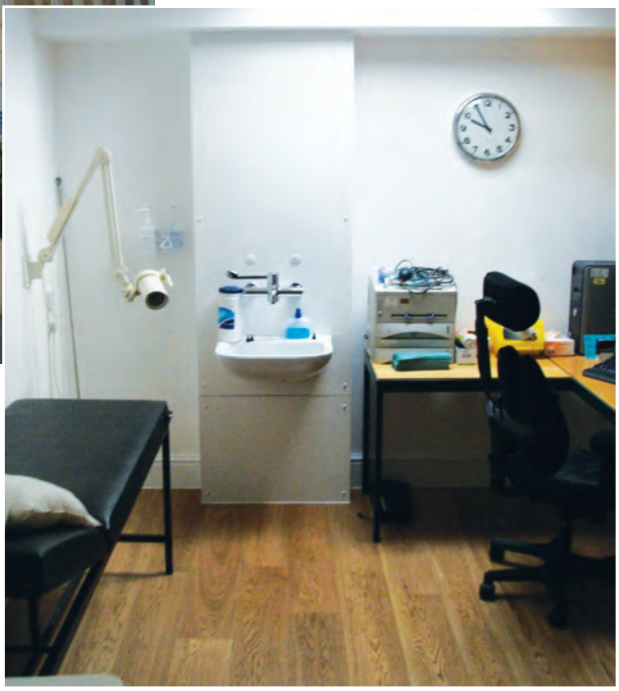
Oswestry, Shropshire

This is a development of a purpose built, three-storey primary care centre in Oswestry (approximately 15 miles south of Wrexham), to be constructed inside an existing Grade 2 listed railway shed.

The building is to provide accommodation for Shropshire County Primary Care together with a local four partner GP practice serving approximately 6,000 patients. The centre will extend to around 4,600 sq m and forms a new hub centre for primary care services within the North-West region of Shropshire County Primary Care, providing and range of facilities including primary care led diagnostics, minor injuries, advanced primary care services and dental services. PHP is committed to purchasing the completed building once a number of conditions precedent have been satisfied.



Value-adding Asset Management Activities



Ritchie Street Group Practice, Islington

Acquired in 2000, a refurbishment programme was completed in Q1 2010 at the Ritchie Street Group Practice, which included creating 42 sq m of additional space producing an additional rental of just under £11,500 per annum through utilising unused courtyard space. A pharmacy was also brought into the centre at a starting rent of £15,000 per annum and both tenants are now committed to the centre on leases extended to 25 year terms. The surgery has also been awarded the local GP-led health centre contract and now operates a walk-in service, seven days a week. The health centre serves approximately 13,500 patients.

Old Fire Station Surgery, Woolston

In 2010, a two storey extension to the Old Fire Station Surgery, (originally acquired in 1996), was completed to provide accommodation for additional consulting services. The practice agreed a lease extension, providing them with a 22 year term certain from the date of completion. The health centre serves approximately 8,500 patients.

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 Committee and a member of the Remuneration, Nomination and Management Engagement 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, and 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. Chairman of the Remuneration and Nomination Committees and a member of the Audit and Management Engagement Committees. He has been a General Practitioner for 30 years with the Westcliffe Practice in Shipley, Yorkshire. 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 Adviser 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, he has also worked as an associate of the Prime Minister's Delivery Unit and at a senior level within the Department of Health. He is the National Clinical Adviser on 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. Chairman of the Management Engagement Committee and a member of the Audit, Remuneration 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 fund 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. He was 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.

Horley Health Centre, Horley, Surrey
1,600 sq m, purchased in June 2010 as part of the HI portfolio.

A purpose built primary care centre, originally constructed in 2005. Comprising two buildings, the centre is fully let to two doctors' practices, Surrey PCT and Lloyds Pharmacy. Eight doctors provide services to 18,000 patients from this location.

Group Directors' Report

The Directors present their report to Shareholders for the year ended 31 December 2010. All information in the Report and Financial Statements, to which this Directors' Report cross-refers, is incorporated by reference.

Results and dividends

The profit after tax for the year ended 31 December 2010 amounted to £25.7million (year ended 31 December 2009: £10.8million).

Interim dividends totalling 17.50p per Ordinary Share were paid during the year ended 31 December 2010.

The Board proposes to pay an interim dividend of 9.00p per Ordinary share on 31 March 2011. Further details are shown under Shareholder Information on page 79.

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 all used in the provision of primary care.

Recent budget announcements have ringfenced healthcare spend through the NHS in real terms and primary care activities are set to be expanded as part of the changes announced in the Health Bill published in January.

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

As at 31 December 2010, the Group had invested in 155 properties (148 completed and seven that it had committed to acquire) with a gross asset value of approximately £503.6million, with completed properties at 31 December 2010 generating a current annualised rent roll of approximately £28.0million.

Business review for the year ended 31 December 2010

The Operating and Financial Review, which can be found on pages 3 to 11 of this Report, contains a review of the business, an analysis of the Group's position at the end of the financial year, KPIs and a description of the principal risks and uncertainties facing the Group.

Real Estate Investment Trust

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

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 3 to 11.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 39 to 43. In addition, Notes 18, 19, 20 and 30 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 and the property acquisition pipeline is currently strong. The Group's borrowing facilities are not due for renewal until 2013 and the loan to value ratio is currently 57.6%, well below the maximum banking covenant of 70.0%.

The Directors believe that the Group is well placed to manage its business risks successfully, despite the continuing 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

Biographical details for all of the Directors in office at 31 December 2010 can be found on pages 20 and 21.

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

Group Directors' Report continued

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.

In accordance with Article 103 of the Articles of Association, Mr Hyman and Dr Rutter retire by rotation and a resolution to reappoint them will also be put to the Annual General Meeting.

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 Directors' remuneration can be found in the Directors' Remuneration Report on page 35 and note 4 to the financial statements on page 52.

The interests of the Directors in the share capital of the Company (all of which are direct and beneficial unless otherwise stated) and any interests of a person connected with a Director (shown as indirect) (within the meaning of the Disclosure and Transparency Rules) are given below:

	31 Dec 2010	31 Dec 2009
Ordinary shares of 50p		
Graeme Elliot	13,365	13,365
Martin Gilbert	57,158	57,158
William Hemmings (alternate to Martin Gilbert)	3,502	3,083
James Hambro	44,416	44,416
James Hambro (indirect)	501,464	501,464
Harry Hyman	50,958	48,742
Harry Hyman (indirect)	3,622,396	3,612,914
Ian Rutter	5,495	5,345
Alun Jones	16,027	15,670
Mark Creedy	5,000	5,000

Mr Gilbert is a Director of Aberdeen Asset Management PLC (the holding 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 2010 and the date of this Report.

As a consequence of the monthly purchases of shares under a monthly share plan, Mr Hyman's beneficial interest as at the date of this Report was 51,076 Ordinary shares and Mr Hemmings' beneficial interest was 3,561 Ordinary shares.

Conflicts of interest

The Board has a process in place 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 conflicts 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)	3,673,354	5.85
Blackrock Inc. (indirect)	3,035,591	4.83
Legal & General	2,492,675	3.97
Aberdeen Asset Management PLC (indirect)	2,150,350	3.42
Legal & General (indirect)	2,008,971	3.20

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.

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.

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.

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 25.

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.

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 62,802,333 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.

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

Group Directors' Report continued

Up until 31 December 2010, NPM and JOHCML were 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 was paid to NPM for the provision of the services of the Managing Director.

In addition, the Company pays NPM for certain additional services, 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.

On 21 February 2011, the Management Engagement Committee approved and executed the terms of a revised agreement. The effective date of the revised terms is 1 January 2011.

Summary of the changes to the Agreement

The duties of NPM and JOHCML are broadly unchanged as compared to those contained in the current Agreement. The changes stipulate that certain reports as to the administration of the Company and the property portfolio will be made on a more regular basis. The Agreement is also more prescriptive as to the content of those reports.

The fee payable to both NPM and JOHCML under the Agreement in respect of gross assets in excess of £500million has been reduced as a consequence of the new sliding scale of charges. This provides for a reducing percentage payment in the event that the gross asset value of the Company increases. The scale starts with a gross asset value of less than £50,000,000 and finishes where the gross asset value exceeds £750,000,000. Previously, the fee rate was static when gross asset values rose above £50,000,000.

The table below shows the fee rates to be charged at differing gross asset levels and how this is divided between NPM and JOHCML. Although the Joint Managers are deemed to be a related party for the purposes of the UKLA Listing Rules, due to the de minimis nature of the changes in the context of the Group's overall assets, the UKLA has confirmed that the amendments to the Management Agreement do not require Shareholder approval.

	Annual Fee Rate		
Gross asset value	**NPM** %	**JOHCML** %	**Total** %
Up to £50million	0.5500	0.4500	1.0000
Incremental fee charged above £50million but less than £350million	0.4125	0.3375	0.7500
Incremental fee charged above £350million but less than £450million	0.4875	0.2625	0.7500
Incremental fee charged above £450million but less than £500million	0.5625	0.1875	0.7500
Incremental fee charged above £500million but less than £750million	0.4500	0.0750	0.5250
Incremental fee charged above £750million	0.3750	0.0625	0.4375

A provision has been added to the agreement which entitles NPM and JOHCML to receive a payment in lieu of notice in the event that the Company terminates the Agreement. Such payment will be calculated by reference to the unexpired notice period and the gross asset value at the time of the termination. The Company has always been able to terminate the agreement upon notice but previously did not have the ability to terminate and make payment to the Joint Managers in lieu of notice.

The Agreement has provisions in relation to non standard services provided by NPM to the Company. Any such services supplied will be paid for as and when the costs are incurred but are capped at 10% of the total fees paid to NPM in accordance with the gross asset value calculation.

Performance Incentive Fee ("PIF")

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 2010 or 2009 and there is a deficit of some £42.8million (2009: deficit of £54.3million) to be made up in the net asset value before any further Performance Incentive Fee becomes payable under the terms of the Management Agreement.

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.

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.

Donations

The Group does not make any political or charitable donations.

Share service

The Primary Health Properties Share Service is provided by Equiniti and offers the flexibility to purchase ordinary shares in PHP by paying in a regular monthly 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 in Note 32 on page 69.

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.

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.

Annual General Meeting

The Annual General Meeting is convened on 12 April 2011 at 10.30 am at the registered office of the Company, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. The Notice of Annual General Meeting is on pages 85 to 86.

Explanatory notes for the resolutions to be put to Shareholders at the Annual General Meeting are shown on pages 87 to 88.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
23 February 2011

Primary Health Properties PLC
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 Company 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 have elected to prepare the Company 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 policies 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 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
23 February 2011

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 Board has reviewed the UK Corporate Governance Code 2010, which will replace the Code in respect of the financial year ended 31 December 2011, and while they do not consider that any major changes are required in the Company's case, they will be ensuring compliance or explanation, whenever appropriate, in the coming year.

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.

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 20 and 21. 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 by the Board. The Chairman chairs the Board and general meetings of the Company, sets the agenda of such meetings and promotes the highest standards of integrity, probity and corporate governance throughout the Group, 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

Meetings and attendance

Director	Board meetings attended (total 8)	Audit Committee meetings attended (total 2)*
Graeme Elliot	8	2
Alun Jones	8	2
Harry Hyman	8	N/A
Mark Creedy	7	2
James Hambro	8	N/A
Martin Gilbert (alternate William Hemmings)	8	N/A
Dr Ian Rutter	7	2

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

has 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 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.

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) and Graeme Elliot. 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 PricewaterhouseCoopers LLP between 1981 and 2006. It will be seen from the Directors' biographical details, appearing on pages 20 and 21, 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

Corporate Governance continued

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 roles 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
- 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 judgmental issues requiring its attention.
- The Audit Committee Chairman also meets the auditors and staff of the Managers in December, February and early August 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.

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
- 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. However, each possible 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 note 4 to the financial statements on page 51.

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 normally meets once per year and comprises three Independent Directors, Dr Rutter (Chairman), Mr Jones and Mr Creedy. The terms of reference, role and composition of the Committee is contained in the Directors' Remuneration Report which is set out on pages 35 to 36. The Committee did not meet during the year.

Nomination Committee

The Nomination Committee comprises the three Independent Directors and is chaired by Dr Rutter. It meets as and when deemed necessary, but was not required to meet formally during the year. 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. Non-Executive Directors are not appointed for specific time periods.

Management Engagement Committee

The Management Engagement Committee comprises Mr Creedy (Chairman), Dr Rutter and Mr Jones 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.

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 25 to 27.

Revisions to the terms of the Management Agreement were approved on 21 February 2011, as previously stated in the Group Directors' Report on page 26.

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.

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 2011 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

Corporate Governance continued

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.

Two of the largest Shareholders are represented on the Board (Nexus Group Holdings Limited and Aberdeen Asset Management PLC). 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.

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 budgeting, 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 ongoing 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 system of internal control adopted by the Joint Manager 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 consolidated financial statements in accordance with International Financial Reporting Sandards ("IFRS") and other applicable reporting standards. In addition, the integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Audit Committee and the Board.

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.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
23 February 2011

Primary Health Properties PLC
Registered office:
Ground Floor, Ryder Court, 14 Ryder Street
London SW1Y 6QB

Registered in England No: 3033634

Directors' Remuneration Report

Role and composition

The Remuneration Committee is chaired by Dr Rutter and its other members are Mr Jones and Mr Creedy.

This report has been prepared in accordance with section 420 of the 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 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 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. The Committee has agreed that, with effect from 1 January 2011, and reflecting the growth in the portfolio and the increasing amount of time spent on the Company's business, these fees will increase to £25,000 p.a. for the Directors and £32,500 p.a. for the Chairman. In reaching these figures, the Committee obtained external advice and compared the fees with those paid by the Company's peers.

In addition, in June 2009 on 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 will be reviewed as and when necessary.

Following the work undertaken by Mr Creedy on the revision and approval of the Management Agreement during the year, the Board decided to thank him for his efforts by awarding him a one off fee of £2,500.

Remuneration of Directors (audited)

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Graeme Elliot (Chairman)	25,000	25,000
Harry Hyman (Managing Director)	20,000	20,000
Alun Jones (SID and Chairman of Audit Committee)	25,000	23,750
James Hambro	20,000	20,000
Martin Gilbert	20,000	20,000
Ian Rutter (Chairman of Remuneration and Nomination Committees)	20,000	20,000
Mark Creedy (Chairman of Management Engagement Committee)	22,500	20,000
Total	152,500	148,750

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 25 to 27 and details of amounts paid to the each of the Joint Managers in note 4 and 31 on pages 52 and 69 to the financial statements. The fee in respect of Mr Gilbert's services as a Director is paid to Aberdeen Asset Management PLC. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. Directors may be reimbursed for travel and accomodation expenses in connection with Board Meetings and in line with the Group's expense policy.

Directors' Remuneration Report continued

Service contracts

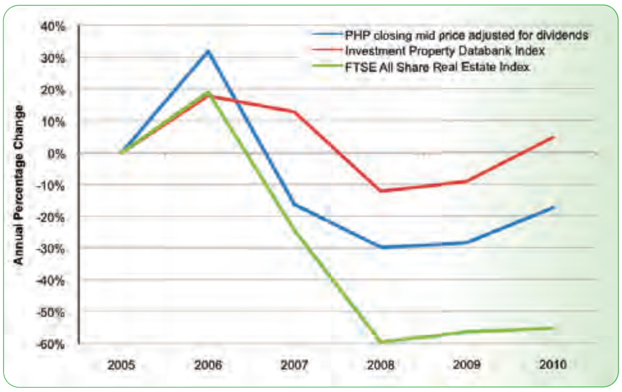
No Director has a service contract nor is he appointed for a specific term of office. The contracts for the services of Messrs Hyman and Hambro are with NPM and JOHCML respectively, pursuant to the Management Agreement. The Management Agreement provides for the appointment of the Managing Director of the Company (such person to be approved by the Company and to spend such time as is required to fulfil the role with a minimum of 10 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 25 and 27. 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 Databank ("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 31 December 2010, (the latest information available), the 8,812 properties covered by the Quarterly Index were valued at £108.4billion. The UK Quarterly index has measured the three market sub-sectors (namely office, retail and industrial) since 1971.

For the year ended 31 December 2010, the highest and lowest mid-market price of the Company's Ordinary Shares was 339.00p and 270.75p respectively.

In accordance with section 422 of Companies Act 2006, this Report was approved by the Board on 23 February 2011 and signed by Dr Rutter, Director and Chairman of the Remuneration Committee.

For and on behalf of the Board

Ian Rutter
Chairman of the Remuneration Committee
23 February 2011

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 2010 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 32. 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 Statement on pages 28 and 29, 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 and express an opinion on 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 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 2010 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 Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 30 to 34 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditors' Report continued

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:

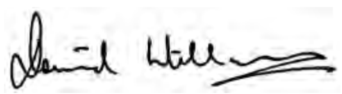
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 23, 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; and
- Certain elements of the report to Shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Primary Health Properties PLC for the year ended 31 December 2010 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
23 February 2011

Group Statement of Comprehensive Income
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Rental income		**26,574**	20,994
Finance lease income		**341**	338
Rental and related income	3	**26,915**	21,332
Direct property expenses		**(398)**	(210)
Administrative expenses: recurring	4	**(4,646)**	(3,460)
Administrative expenses: non-recurring	4	**-**	372
Operating profit before net valuation gain on property portfolio		**21,871**	18,034
Net valuation gain on property portfolio	10	**22,790**	1,615
Operating profit before financing costs		**44,661**	19,649
Finance income	5	**160**	86
Finance costs	6	**(12,882)**	(10,267)
Fair value (loss)/gain on interest rate swaps	6	**(4,714)**	1,318
Profit on ordinary activities before taxation		**27,225**	10,786
Current taxation credit	7	**36**	-
Conversion to UK-REIT charge	7	**(1,586)**	-
Taxation expense		**(1,550)**	-
Profit for the year [1]		**25,675**	10,786
Fair value movement on interest rate swaps treated as cash flow hedges	25	**(6,013)**	7,657
Unrealised gain on current asset investment	13	**79**	-
Other comprehensive (loss)/income		**(5,934)**	7,657
Total comprehensive income for the year net of tax[1]		**19,741**	18,443
Earnings per share [2]	8	**41.3p**	26.6p
Adjusted earnings per share [2 3]	8	**14.7p**	18.4p

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 of properties and derivatives (see note 8).

Group Balance Sheet
as at 31 December 2010

	Notes	2010 £000	2009 £000
Non current assets			
Investment properties	10	**469,290**	341,890
Net investment in finance leases	12	**3,036**	3,014
Interest rate swaps	19	**413**	1,386
		472,739	346,290
Current assets			
Current asset investment	13	**555**	-
Interest rate swaps	19	**-**	63
Trade and other receivables	14	**2,582**	1,939
Net investment in finance leases	12	**48**	49
Cash and cash equivalents	15	**370**	212
		3,555	2,263
Total assets		**476,294**	348,553
Current liabilities			
Interest rate swaps	19	**(16,859)**	(12,208)
Corporation tax payable	16	**(48)**	(29)
UK-REIT conversion charge payable	16	**(1,998)**	(1,455)
Deferred rental income		**(5,942)**	(4,638)
Trade and other payables	17	**(4,837)**	(1,991)
Term loans	18	**(3,000)**	-
		(32,684)	(20,321)
Non current liabilities			
Term loans	18	**(264,445)**	(166,139)
Interest rate swaps	19	**(14,419)**	(9,322)
UK-REIT conversion charge payable	16	**-**	(856)
		(278,864)	(176,317)
Total liabilities		**(311,548)**	(196,638)
Net assets		**164,746**	151,915

	Notes	2010 £000	2009 £000
Equity			
Share capital	21	**31,401**	30,729
Share premium	22	**53,934**	50,664
Capital reserve	23	**1,618**	1,618
Special reserve	24	**44,442**	44,442
Cashflow hedging reserve	25	**(13,279)**	(7,266)
Retained earnings	26	**46,630**	31,728
Total equity [1]		**164,746**	151,915
Net asset value per share	27	**262.3p**	247.2p
EPRA net asset value per share [2]	27	**311.5p**	279.9p

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

2 See definition on page 6.

These financial statements were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

Graeme Elliot
Chairman

Group Cash Flow Statement
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Operating activities			
Profit before tax		**27,225**	10,786
Less: Finance income		**(160)**	(86)
Plus: Finance costs		**12,882**	10,267
Plus: Fair value loss/(gain) on derivatives		**4,714**	(1,318)
Operating profit before financing		**44,661**	19,649
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Revaluation gain on property		**(22,790)**	(1,615)
Increase in trade and other receivables [1]		**(946)**	(131)
Increase/(decrease) in trade and other payables [1]		**4,003**	(377)
Cash generated from operations		**24,928**	17,526
UK-REIT conversion charge instalments		**(1,934)**	(1,575)
Taxation paid [2]		**(193)**	-
Net cash flow from operating activities		**22,801**	15,951
Investing activities			
Payments to acquire investment properties		**(25,234)**	(23,413)
Payments to acquire shares in AH Medical Properties PLC		**(476)**	-
Payments to acquire Anchor Meadow Limited		**(5,498)**	-
Payments to acquire Sinclair Montrose Properties Limited		**(23,842)**	-
Payments to acquire Abstract Integrated Healthcare Limited [3]		**(1,856)**	-
Payments to acquire Charter Medinvest Limited		**(6,787)**	-
Payments to acquire Health Investments Limited [3]		**(7,214)**	-
Interest received on developments		**134**	46
Bank interest received		**4**	4
Other interest		**8**	36
Net cash flow used in investing activities		**(70,761)**	(23,327)
Financing activities			
Proceeds from issue of shares (net of expenses)		**-**	60,748
Term bank loan drawdowns		**85,700**	38,990
Term bank loan repayments		**(15,924)**	(77,290)
Swap interest payable		**(8,461)**	(6,541)
Loan arrangement fees		**(176)**	-
Interest paid		**(3,211)**	(3,432)
Dividends received		**15**	-
Equity dividends paid		**(9,825)**	(5,562)
Net cash flow from financing activities		**48,118**	6,913
Increase/(decrease) in cash and cash equivalents for the year		**158**	(463)
Cash and cash equivalents at start of year		**212**	675
Cash and cash equivalents at end of year (note 15)		**370**	212

1 Asset movements include movements relating to acquisitions

2 Taxation was paid in the period in order to settle the outstanding liabilities in the acquired companies. All amounts payable were included in the consideration calculation.

3 Payment net of acquired debt commitments.

Group Statement of Changes in Equity
for the year ended 31 December 2010

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve[1] £000	Cashflow hedging reserve £000	Retained earnings £000	Total £000
1 January 2010	**30,729**	**50,664**	**1,618**	**44,442**	**(7,266)**	**31,728**	**151,915**
Profit for the year	-	-	-	-	-	25,675	25,675
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps treated as cash flow hedges	-	-	-	-	(6,013)	-	(6,013)
Unrealised gains at fair value through equity	-	-	-	-	-	79	79
Total comprehensive income	-	-	-	-	(6,013)	25,754	19,741
Dividends paid:							
Second dividend for the year ended 31 December 2009 (8.75p)	-	-	-	-	-	(5,061)	(5,061)
First interim dividend for the year ended 31 December 2010 (8.75p)	-	-	-	-	-	(4,764)	(4,764)
Scrip issue in lieu of first interim cash dividend (net of expenses)	54	262	-	-	-	(316)	-
Scrip issue in lieu of second interim dividend (net of expenses)	116	595	-	-	-	(711)	-
Share consideration for the HI acquisition	502	2,413	-	-	-	-	2,915
31 December 2010	**31,401**	**53,934**	**1,618**	**44,442**	**(13,279)**	**46,630**	**164,746**
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:							
Fair value movement on interest rate swaps treated as cash flow hedges	-	-	-	-	7,657	-	7,657
Total comprehensive income	-	-	-	-	7,657	10,786	18,443
Proceeds from capital raisings	13,883	2,855	-	46,956	-	-	63,694
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)	52	233	-	-	-	(284)	1
31 December 2009	**30,729**	**50,664**	**1,618**	**44,442**	**(7,266)**	**31,728**	**151,915**

1 The Special Reserve is a distributable reserve

Notes to the Financial Statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2010 were approved by the Board of Directors on 23 February 2011 and the Balance Sheets were signed on the Board's behalf by the Chairman, G A Elliot. 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 the 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.

2.2 Summary of significant accounting policies

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. 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, NHS Organisations and other associated health care users. (Please refer to charts on page 12).

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.

2. Accounting policies continued

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.

Property acquisitions and business combinations

Where a property is acquired through the acquisition of corporate interests, the Board considers the substance of the assets and activities of the acquired entities in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in note 2.3(b).

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values on the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, corporate acquisitions are accounted for as business combinations.

Current asset investments

Current asset investments are held as Available For Sale (“AFS”) in accordance with IAS 39. Any unrealised gain or loss is recognised through 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 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

Notes to the Financial Statements continued

2. Accounting policies continued

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. A rent adjustment is recognised from the rent review date in relation to unsettled rent reviews. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis.

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.

2. Accounting policies continued

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 of £5.2million based on the value of the properties as at the date of conversion. This amount is payable over four years. Acquired companies were converted to UK-REIT status and further one off charges become payable on conversion.

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 de-recognised 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-through' arrangement;
- 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.

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

Notes to the Financial Statements continued

2. Accounting policies continued

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 income.

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 an effective 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", i.e., 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.

2. Accounting policies continued

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.

2.3 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

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.

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 bid price of the yield curve prevailing on 31 December 2010. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

Notes to the Financial Statements continued

2. Accounting policies continued

Rent reviews

The Group's occupational leases include periodic rent review provisions. All of the reviews are effectively upwards only and either reviewed to Open Market Rent or linked to RPI at the review date. The Group accrues for the potential uplift in rent from the date of the review. Estimated rents are established by the Joint Managers using their own data from previous reviews supported by estimates from third party advisers. The Group then accrues 90% of the estimated rental increase. Any additional rent receivable is booked on receipt when the rent review is agreed.

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 or before expiry in 2013 and that debt finance will be in place until the expiry date of the swaps.

Property acquisitions during the year

The Directors have reviewed the acquisitions during the year on an individual basis in accordance with the requirements of IFRS3(R). They consider that they all meet the criteria of asset acquisitions rather than business combinations and have accounted for them as such. Although corporate entities were acquired, they were special-purpose vehicles for holding properties rather than separate business entities.

2.4 Standards adopted during the year

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

- IFRS 3R Business Combinations introduced a number of changes in the accounting for business combinations impacting the amount of any goodwill recognised, the reporting results in the period that an acquisition occurs and future reported results.
- IAS 27R Consolidated and Separate Financial Statements 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 subsidiary as well as the loss of control of a subsidiary.
- Improvements to IFRS 2009: General improvements to existing standards have been adopted by the Group with effect from May 2010, subject to endorsement by the European Union.

2. Accounting policies continued

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.

IFRS9 Financial Instruments: Classification and measurement. IFRS9 as issued reflects the first phase of the IASB's work on the replacement of the IAS39 and applies to classification and measurement of financial assets as defined in IAS39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in early 2011. The Directors will quantify the effect on the Group in conjunction with the other phases, when issued, to present a comprehensive picture.

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:

2010				2009			
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**
29,223	**120,243**	**363,447**	**512,913**	21,312	84,589	263,364	369,265

The future minimum lease payments includes amounts due in future years from investment properties under development at the year end.

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, NHS organisations and other healthcare users, typically on long term occupational leases which provide for regular reviews of rent on an effectively upwards only basis.

Notes to the Financial Statements continued

4. Group operating profit is stated after charging

	2010 £000	2009 £000
Administration expenses: recurring		
Management fees (note 4a)	**3,364**	2,426
Performance Incentive Fee (note 4b)	**-**	-
Directors' fees (note 4c)	**153**	149
Property management fees and other services payable to NPM	**158**	135
Auditors' remuneration for:		
• audit of the Financial Statements	**124**	129
• audit of accounts of subsidiaries acquired during the year	**37**	-
• taxation services - compliance	**48**	94
- advisory	**27**	19
Other professional fees	**369**	236
Other expenses	**366**	272
Total	**4,646**	3,460
Administration expenses: non-recurring		
Release of accruals brought forward [1]	**-**	(372)
	-	(372)

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

a) Management fees

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

	2010 £000	2009 £000
Nexus PHP Management Limited ("NPM")	**1,844**	1,380
J O Hambro Capital Management Limited ("JOHCML")	**1,520**	1,046
	3,364	2,426

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. JOHCML is also Company Secretary. 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.

As at 31 December 2010, £140,600 of management fees payable to JOHCML were outstanding (2009: £102,000), and £171,000 was payable to NPM (2009: £126,000).

b) Performance Incentive Fee ("PIF")

Information about the Performance Incentive Fee ("PIF") is provided in the Group Directors' Report on page 27.

c) Remuneration of Directors

Information about the remuneration of individual Directors is provided in the Directors' Remuneration Report on pages 35 and 36.

5. Finance income

	2010 £000	2009 £000
Interest income on financial assets		
Bank interest	**3**	4
Development loan interest	**134**	46
Other interest	**8**	36
Dividend income received	**15**	-
	160	86

6. Finance costs

	2010 £000	2009 £000
Interest expense on financial liabilities		
Not at fair value through profit or loss		
(i) Interest paid		
Swap interest paid	**8,518**	6,473
Bank loan interest paid	**3,812**	3,228
Other interest paid	**15**	(12)
Notional UK-REIT interest	**36**	103
Bank facility non utilisation fees	**105**	148
Bank charges and loan commitment fees	**396**	327
	12,882	10,267
At fair value through profit or loss		
(ii) Derivatives		
Net fair value loss/(gain) on interest rate swaps	**4,714**	(1,318)
	4,714	(1,318)

The fair value loss of £4.7million (2009: gain of £1.3million) on derivatives recognised in the Group Statement of Comprehensive Income for the year has arisen from the interest rate swaps for which hedge accounting does not apply. The gain in 2009 is net of a loss of £391,000 on the basis rate swaps which matured during the year. Details of the fair value loss on hedges which meet the effectiveness criteria under IAS 39 are set out in note 25.

Net finance costs may be summarised as follows.

	2010 £000	2009 £000
Finance income (note 5)	**(160)**	(86)
Finance costs	**12,882**	10,267
Net finance costs	**12,722**	10,181

Notes to the Financial Statements continued

7. Taxation

a) Tax expense in the Group Statement of Comprehensive Income

The tax expense is made up as follows:

	2010 £000	2009 £000
Current tax		
UK corporation tax credit on non property income	**(36)**	-
Charge on conversion to UK-REIT status [1]	**1,586**	-
Total tax charge in Group Income Statement (note 7b)	**1,550**	-

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The reduction from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from April 2011. This will reduce the Group's future current tax charge on non property income.

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2009: lower) the standard rate of corporation tax in the UK. The differences are explained below:

	2010 £000	2009 £000
Profit on ordinary activities before taxation	**27,225**	10,786
Theoretical tax at UK corporation tax rate of 28% (2009: 28%)	**7,623**	3,020
REIT exempt income	**(2,658)**	(3,052)
Non taxable items	**(5,059)**	-
Other differences	**-**	(2)
Finance lease adjustment	**4**	4
Losses carried forward	**90**	30
Movement in tax provision during the year	**(36)**	-
Current tax charge (note 7a)	**(36)**	-

1 Conversion to a UK REIT means that the Group is no longer subject to UK corporation tax. The UK REIT charge of £1.6million has arisen on the conversion of the companies acquired during the year ended 31 December 2010 to UK REIT status, based on the values of the individual properties held within those companies.

8. Earnings per share

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

Adjusted earnings per share:

	2010			2009		
	Net profit attributable to Ordinary Shareholders £000	**Ordinary Shares (number)[1]**	**Per Share (pence)**	**Net profit attributable to Ordinary Shareholders £000**	**Ordinary Shares (number)[1]**	**Per Share (pence)**
Basic earnings per share	**25,675**	**62,162,797**	**41.3p**	10,786	40,623,413	26.6p
Adjustments to remove:						
Net property valuation gains (Note 10)	**(22,790)**			(1,615)		
Fair value loss/(gain) on derivatives [2]	**4,714**			(1,318)		
Other non-recurring items	**-**			(372)		
Charge on conversion to UK-REIT status	**1,586**			-		
UK corporation tax credit	**(36)**			-		
Adjusted basic and diluted earnings per share	**9,149**	**62,162,797**	**14.7p**	7,481	40,623,413	18.4p

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

2 In view of the continuing volatility in the mark-to-model 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.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2010 £000	**2009 £000**
Second interim dividend for the year ended 31 December 2009 (8.75p) paid 26 March 2010 (2009: 8.50p)	**5,061**	2,855
Scrip dividend in lieu of second interim cash dividend	**316**	284
First interim dividend for the year ended 31 December 2010 (8.75p) paid 29 October 2010 (2009: 8.50p)	**4,764**	2,707
Scrip dividend in lieu of first interim cash dividend	**711**	-
	10,852	5,846
Per share	**17.5p**	17.0p

Notes to the Financial Statements continued

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 1 January 2010 [1]	280,739	57,655	3,496	341,890
Property additions	517	262	20,442	21,221
Acquired investment property	3,641	-	-	3,641
Anchor Meadow Limited	5,498	-	-	5,498
Sinclair Montrose Properties Limited	22,073	1,792	-	23,865
Abstract Integrated Healthcare Limited	1,770	3,086	-	4,856
Charter Medinvest Limited	6,787	-	-	6,787
Health Investment Limited	22,924	15,818	-	38,742
Transfer from properties in the course of development	14,313	2,989	(17,302)	-
Revaluations for the year	24,961	(2,742)	571	22,790
As at 31 December 2010	**383,223**	**78,860**	**7,207**	**469,290**
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	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

1 The split between freehold and long leasehold properties has been reclassified. This reclassification has no impact on the gross asset value.

The historical cost of properties held by the Group, including properties in the course of development, was £393.7million (2009: £284.7million).

Head lease outgoings on long leasehold assets total less than £32,000 in the current year.

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 fully let. The valuations reflected a 5.8% initial yield (2009: 6.0%) and a 6.0% (2009: 6.24%) true equivalent yield as detailed on page 5. 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 addition to the market value exercise performed by LSH, the Joint Managers monitor the value of the Group's investment portfolio based on DCF analysis and with alternative discount rates. Full details can be found on page 5 of the Operating and Financial Review.

10. Investment properties, investment properties under construction continued

In accordance with IAS 40, investment properties under construction have also 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 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 increase of £571,000 (2009: decrease of £965,000) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income.

In line with Accounting Policies (page 44), the Group has treated the corporate acquisitions during the year as asset purchases rather than business combinations as they were judged to be acquisitions of properties rather than businesses.

11. Investments

The principal subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and shares held
Primary Health Investment Properties Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 4) Limited [2]	Property investment	100%
Health Investments Limited [1]	Property investment	100%
PHP Healthcare (Holdings) Limited [1]	Property investment	100%
PHP Healthcare Investments (Holdings) Limited [2]	Property Investments	100%
PHP Healthcare Investments Limited [2]	Property Investments	100%

1 Subsidiaries directly held by the Company.

2 Subsidiaries held indirectly by the Company.

12. Net investment in finance leases

	2010 £000	2009 £000
Amounts due in more than five years	**2,963**	2,906
Amounts due between one and five years	**73**	108
	3,036	3,014
Amounts due in less than one year	**48**	49
	3,084	3,063

There were no additions to finance leases during the year ended 31 December 2010 nor the year ended 31 December 2009.

	2010 £000	2009 £000
Gross investment in finance leases	**9,431**	9,751
Less: unearned financial revenues	**(6,347)**	(6,688)
Present value of future minimum lease payment receivables	**3,084**	3,063

Notes to the Financial Statements continued

13. Current asset investment

	2010 £000	2009 £000
As at beginning of period	**-**	-
Additions at cost	**476**	-
Unrealised gain recognised directly in equity	**79**	-
	555	-

The current asset investment acquired during the year at a cost of £476,000 represents 1,970,500 ordinary shares in AH Medical Properties PLC ("AHMP") and is held as an Available For Sale ("AFS") asset in accordance with IAS 39 and has been valued at the quoted price on 31 December 2010 of 28p per share. The unrealised gain on the investment is recognised directly in equity and through the Group Statement of Comprehensive Income. On 19 January 2011, an offer was made by Assura Group Limited for the entire share capital of AHMP (see note 32).

14. Trade and other receivables

	2010 £000	2009 £000
Trade receivables	**775**	442
Prepayments and accrued income	**1,205**	1,011
Other debtors	**602**	486
	2,582	1,939

As at 31 December, the analysis of trade receivables that were past due but not impaired is set out below:

			Past due but not impaired				
	Total £000	Neither past due or impaired £000	< 30 days £000	30-60 days £000	60-90 days £000	90-120 days £000	> 120 days £000
2010	**775**	**-**	**723**	**-**	**-**	**-**	**52**
2009	442	360	30	-	-	-	52

15. Cash and cash equivalents

	2010 £000	2009 £000
Cash held at bank	**370**	212

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.

16. Tax and UK-REIT conversion charge payable

	2010 £000	2009 £000
Corporation tax payable	**48**	29
UK-REIT conversion charge payable		
- within twelve months	**1,998**	1,455
- after more than twelve months	**-**	856
	1,998	2,311

During the year, an additional charge of £1.6million was recognised on conversion of newly acquired companies to UK REIT status. Following payments of £1.9million during the year, the UK REIT conversion charge payable at the balance sheet date is £2.0million, all of which is payable within the following twelve months.

17. Trade and other payables

	2010 £000	2009 £000
Trade and other payables	**4,218**	1,468
VAT	**619**	523
	4,837	1,991

Trade payables include an accrual of £940,000 due to Crownbell Developments for works on the development at Oswestry. Furthermore, bank interest is now payable on a quarterly rather than a monthly basis and therefore the financial statements include a larger accrual of £937,000 at the year end.

18. Term loans

At 31 December 2010, total facilities of £321.5million including the £10million overdraft facility (2009: £265.0million) were available. Of these facilities, as at 31 December 2010, £268.3million was drawn (2009: £167.3million) 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 1.4% and 1.5% (2009: 3.2% and 1.2%), including lenders' margins and costs (excluding margins and costs 0.6% and 0.8% (2009: 2.5% and 0.5%)). However, the Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 19.

Interest on floating rate loans is payable over three 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%).

Notes to the Financial Statements continued

18. Term loans continued

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

	Facility		Amounts drawn		Undrawn	
	2010 £000	**2009 £000**	**2010 £000**	**2009 £000**	**2010 £000**	**2009 £000**
Current						
364 day revolving [1]	**10,000**	10,000	**-**	-	**10,000**	10,000
Term to May 2011[4]	**3,350**	-	**3,000**	-	**350**	-
Non-current						
Term to January 2013 [1]	**140,000**	140,000	**134,300**	116,500	**5,700**	23,500
Term to January 2013 [2]	**50,000**	50,000	**37,900**	-	**12,100**	50,000
Term to January 2013[3]	**65,000**	65,000	**65,000**	50,800	**-**	14,200
Fixed term loan[5]	**28,140**	-	**28,140**	-	**-**	-
Term to December 2020[6]	**25,000**	-	**-**	-	**25,000**	-
	321,490	265,000	**268,340**	167,300	**53,150**	97,700

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)

4. Natwest Bank plc (acquired as part of Abstract acquisition)

5. Aviva facility (acquired as part of HI acquisition) repayable in tranches to 31 January 2032

6. Aviva facility (new facility)

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:

	2010 £000	**2009 £000**
Term loans drawn: due within one year	**3,000**	-
Term loans drawn: due in greater than one year	**265,340**	167,300
Less: Unamortised borrowing costs	**(895)**	(1,161)
Term loans per Group Balance Sheet	**267,445**	166,139

19. Derivatives and other financial instruments

The Group uses interest rate swaps to mitigate exposure to interest-rate risk. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

	2010 £000	2009 £000
Fair value of interest rate swaps treated as cashflow hedges under IAS39 ("effective swaps")		
Non current assets	**413**	1,386
Non current liabilities	**(14,419)**	(9,322)
	(14,006)	(7,936)
Fair value of interest rate swaps not qualifying as cashflow hedges ("ineffective swaps")		
Current assets	**-**	63
Current liabilities	**(16,859)**	(12,208)
	(16,859)	(12,145)
Total fair value of interest rate swaps	**(30,865)**	(20,081)

It is Group policy to maintain the proportion of floating rate interest exposure at between 20%-40% of total interest rate cost.

Changes in the fair value of the contracts that do not meet the strict IFRS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IFRS 39 criteria and are designated as 'effective' cash flow hedges the change in the fair value of the contract is recognised in the Statement of Changes in Equity through the cash flow hedge reserve. The result recognised in the Group Statement of Comprehensive Income on 'ineffective' cash flow hedges in 2010 was a £4.7million loss (2009: £1.3million gain).

Floating to fixed rate interest rate swaps with a contract value of £208million (2009: £183million) were in effect at the year-end. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2010			
£50.0 million callable[1]	August 2007	August 2021[2]	4.835
£38.0 million callable[1]	August 2007	August 2021[2]	4.740
£65.0 million	July 2010	July 2012	4.805
£10.0 million	August 2005	August 2015	4.530
£10.0 million	March 2008	March 2013	4.8925
£10.0 million	March 2008	March 2013	4.895
£10.0 million	June 2006	June 2026	4.810
£15.0 million	Sept 2010	Sept 2013	4.915
£208 million			

Notes to the Financial Statements continued

19. Derivatives and other financial instruments continued

Contract value	Start date	Maturity	Fixed interest per annum %
Contracts not yet in effect			
£73.3million	July 2012	April 2013	4.805
£63.3million	April 2013	July 2013	4.805
£70.0million	July 2013	July 2015	4.805
£80.0million	July 2015	July 2016	4.805
£10.0million	June 2016	June 2026	4.510
£10.0million	July 2016	July 2026	4.400
£10.0million	July 2016	July 2026	4.475
£10.0million	July 2016	July 2026	4.455
£20.0million	July 2016	July 2026	4.47875
£20.0million	July 2017	July 2027	4.76

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 The final maturity date of the callable swaps is 11 August 2021. However, they may be called at the bank's discretion each quarter. The callable swaps were not called on 11 February 2011. The next date on which they may be called is 11 May 2011.

20. Financial risk management

In pursuing its investment objectives, 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 principal financial liabilities, other than interest rates swaps, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has AFS assets, trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Operating and Financial Review on pages 3 to 11. This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

Financial risk factors

(a) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating rates as the Group, generally, does not hold significant cash balances, with short term borrowings being used when required. To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon principal amount. Note 19 provides details of interest swap contracts in effect at the year end.

The sensitivity analysis below shows the impact on profit before tax and equity of reasonably possible movements in interest rates with all other variables held constant. It should be noted that the impact of movement in the interest rate variable is not necessarily linear.

20. Financial risk management continued

		Effect on fair value of financial instruments £000	Effect on profit before taxation £000	Effect on equity £000
2010				
London InterBank Offered Rate	Increase of 50 basis points	8,797	2,851	11,648
London InterBank Offered Rate	Decrease of 50 basis points	(8,797)	(2,851)	(11,648)
2009				
London InterBank Offered Rate	Increase of 50 basis points	8,551	2,619	11,170
London InterBank Offered Rate	Decrease of 50 basis points	(8,551)	(2,619)	(11,170)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments or customer contract, leading to a financial loss. The Group is exposed to credit risk from its principal financial assets being cash and cash equivalents, trade and other receivables, and finance lease receivables. Further details concerning the credit risk of counterparties is provided in note 14.

Trade receivables

Trade receivables, primarily tenant rentals, are presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable concerned. Credit risk is managed by requiring tenants to pay rentals in advance. An analysis of trade receivables past due is shown in note 14. No trade receivables were impaired at the year end.

Bank and financial institutions

One of the principal credit risks of the Group arises from financial derivative instruments and deposits with banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and interest rate swaps is limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

Finance lease receivables

Finance lease receivables are not considered a significant credit risk as the tenants are of good financial standing.

(c) Liquidity risk

The liquidity risk is that the Group will encounter difficulty in meeting obligations associated with its financial liabilities as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to maintain a mixture of available cash and committed bank facilities that are designed to ensure that the Group has sufficient available funds for its operations and to fund its committed capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by the joint managers.

Notes to the Financial Statements continued

20. Financial risk management continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments including interest.

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	> 5 years £000	Total £000
2010						
Interest-bearing loans and borrowings	-	1,459	7,351	249,388	32,813	291,011
UK-REIT Conversion charges	-	936	1,062	-	-	1,998
Interest rate swaps (net)	-	2,422	7,264	38,744	31,592	80,022
Trade and other payables	219	4,191	29	53	345	4,837
	219	**9,008**	**15,706**	**288,185**	**64,750**	**377,868**
2009						
Interest-bearing loans and borrowings	-	628	1,883	172,530	-	175,041
UK-REIT Conversion charges	-	637	1,298	376	-	2,311
Interest rate swaps (net)	-	1,317	3,953	22,075	16,250	43,595
Trade and other payables	98	1,798	-	95	-	1,991
	98	4,380	7,134	195,076	16,250	222,938

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given in the Borrowings section of the Operating and Financial Review on page 7 and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2009: nil).

(d) Market risk

Market risk is the risk that fair values of financial instruments will fluctuate because of changes in market prices. The Board of Directors has identified two elements of market risk that principally affect the Group - interest rate risk and other price risk.

Interest rate risk is outlined in detail above. The Joint Managers assess the exposure to other price risks when making each investment decisions and monitor the overall level of market risk on the investment portfolio on an ongoing basis through a discounted cash flow analysis. Details of this analysis can be found on page 5 of the Operating and Financial Review.

20. Financial risk management continued

Fair values

Set out below is a comparison by class of the carrying amount and fair values of the Group's financial instruments that are carried in the financial statements.

	Book value 2010 £000	Fair value 2010 £000	Book value 2009 £000	Fair value 2009 £000
Financial assets				
AFS financial assets	**555**	**555**	-	-
Finance leases - due within one year	**48**	**310**	49	303
Finance leases - due in more than one year	**3,036**	**4,803**	3,014	4,544
Trade and other receivables	**775**	**775**	660	660
Cash and short-term deposits	**370**	**370**	212	212
Financial liabilities				
Interest-bearing loans and borrowings	**(267,445)**	**(268,340)**	(166,139)	(167,360)
Effective interest rate swaps (net)	**(14,006)**	**(14,006)**	(7,873)	(7,873)
Ineffective interest rate swaps	**(16,859)**	**(16,859)**	(12,208)	(12,208)
Trade and other payables	**(4,218)**	**(4,218)**	(1,468)	(1,468)

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

- The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements due to the short-term nature of these instruments.
- The fair value of floating rate borrowings and finance leases is estimated by discounting future cash flows using rates currently available for instruments with similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs.
- The fair values of the derivative interest rate swap contracts are estimated by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

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

Notes to the Financial Statements continued

20. Financial risk management continued

Assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Current asset investment	**555**	**-**	**-**	**555**
2010 interest rate swaps	-	**413**	**-**	**413**
2009 interest rate swaps	-	1,449	-	1,449

Liabilities	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2010 interest rate swaps	-	**(31,278)**	-	**(31,278)**
2009 interest rate swaps	-	(21,530)	-	(21,530)

21. Called up share capital

	2010 Number	2010 £000	2009 Number	2009 £000
Authorised:				
Ordinary Shares of 50p each	**100,000,000**	**50,000**	100,000,000	50,000
Issued and fully paid at 50p each	**62,802,333**	**31,401**	61,457,298	30,729
At beginning of year	**61,457,298**	**30,729**	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	**108,723**	**54**	103,894	52
Scrip issued in lieu of final cash dividend	**231,159**	**116**	-	-
Shares issue in consideration for the HI acquisition (22 June 2010)	**1,005,153**	**502**	-	-
At end of year	**62,802,333**	**31,401**	61,457,298	30,729

There were two capital raisings during the prior year. 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). The New Shares ranked pari passu with the Existing Ordinary Shares other than in respect of the interim dividend declared on 18 August 2009 relating to the six months ended 30 June 2009.

22. Share premium

	2010 £000	2009 £000
Balance at beginning of year	**50,664**	48,009
Premium on Shares placed (24 March 2009)	**-**	2,855
Issue expenses	**-**	(433)
Share consideration for the HI acquisition	**2,413**	-
Scrip issue in lieu of interim cash dividends	**857**	233
Balance at end of year	**53,934**	50,664

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.

23. Capital reserve

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

	2010 £000	2009 £000
Balance at end of year	**1,618**	1,618

24. 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.

	2010 £000	2009 £000
Balance at end of year	**44,442**	**44,442**

25. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in note 19 on pages 61 and 62.

The transfer to Group Statement of Comprehensive Income and fair value gain on cash flow hedges taken to equity can be analysed as follows:

	2010 £000	2009 £000
Balance at beginning of year	**(7,266)**	(14,923)
Fair value movement on cash flow hedges	**(10,689)**	3,148
Reclassification adjustment for interest included in the Statement of Comprehensive Income	**4,676**	4,509
Net movement on cash flow hedges ("effective swaps") [1]	**(6,013)**	7,657
Balance at end of year	**(13,279)**	(7,266)

1 The net movement on cash flows hedges is made up of the movement in the valuation of the effective swaps - loss £6,070,000 (2009: gain £6,986,000), less net accrued interest of £57,000 (2009: £671,000).

Notes to the Financial Statements continued

26. Retained earnings

	2010 £000	2009 £000
Balance at beginning of year	**31,728**	26,788
Retained profit for the year	**25,675**	10,786
Unrealised gain on fixed asset investment	**79**	-
First interim dividend for the current year ended 31 December 2010 (2009: 31 December 2009)	**(5,061)**	(2,707)
Scrip issue in lieu of interim cash dividends	**(316)**	(284)
Second interim dividend for the period ended 31 December 2009 (2009: 31 December 2008)	**(4,764)**	(2,855)
Scrip issue in lieu of second interim cash dividend	**(711)**	-
Balance at end of year	**46,630**	31,728

27. Net asset value per share

Net asset values have been calculated as follows:

	2010 £000	2009 £000
Net assets per Group Balance Sheet	**164,746**	151,915
Derivative interest rate swaps (net liability)	**30,865**	20,144
Basis rate swaps	**-**	(63)
EPRA NAV	**195,611**	171,996

	No. of shares	No. of shares
Ordinary Shares:		
Issued share capital	**62,802,333**	61,457,298
Net asset value per Share	**262.3p**	247.2p
EPRA NAV per Share	**311.5p**	279.9p

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.

28. 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 27) plus the dividends per share paid.

	2010	2009
Increase in Net Asset Value per share	**15.1**	20.5
Plus dividends paid per share	**17.5**	17.0
	32.6	37.5

29. 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 £31.2million plus VAT (2009: £26.1million plus VAT).

30. Capital management

The primary objectives of the Group's capital management is to ensure that it remains a going concern, operates within its quantitative banking covenants and meets the criteria so as to continue to qualify for UK-REIT status.

The capital structure of the Group consists of shareholder's equity and net borrowings. The type and maturity of the Group's borrowings are analysed further in note 18 and the Group's equity is analysed into its various components in the Statement of Changes in Equity. The Board, with the assistance of the Joint Managers, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for Shareholders.

Under its banking facilities, the Group is subject to the following capital requirements:

- Total bank borrowings are not to exceed 70% of gross assets.
- Rental income must exceed borrowing costs by the ratio 1.3: 1.
- UK-REIT compliance tests. These include loan to property 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.

During the period the Group has complied with all of the requirements set out above.

	2010 £000	2009 £000
Fair value of completed investment properties	**462,083**	338,394
Net investment in finance leases	**3,036**	3,014
	465,119	341,408
Carrying value of interest-bearing loans and borrowings	**267,445**	166,139
Unamortised borrowing costs	**895**	1,161
Less cash held	**(370)**	(212)
Principal amount of interest-bearing loans and borrowings	**267,970**	167,088
Loan to value ratio	**57.6%**	48.9%

31. Related party transactions

The terms and conditions of the Management Agreement are described in the Group Directors' Report on pages 25 to 27 and the Directors' Remuneration Report on page 35. Details of the amounts paid in relation to related party transactions are provided in note 4 on page 52.

32. Subsequent events

The Group holds 1,970,500 ordinary shares in AHMP as a current asset investment (note 13) at its year end quoted value of 28 pence per share. On 19 January 2011, an offer was made by Assura Group Limited for the entire share capital of AHMP. The Group has elected to take the cash alternative of this offer of 40 pence per share and the cash should be received by 4 March 2011.

On 21 February 2011, the Group announced it had entered into a purchase and funding agreement for a new medical centre in Newark, Nottinghamshire, for approximately £4.2million.

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 2010 which comprise the Parent Company Balance Sheet, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 15. 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 on pages 28 and 29, 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 and express an opinion on 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 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 2010;
- 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.

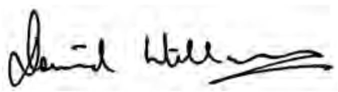
Matters on which we are required to report by exception

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.

Other matter

- We have reported separately on the Group financial statements of Primary Health Properties PLC for the year ended 31 December 2010.



David Wilkinson
Senior Statutory Auditor

for and on behalf of
Ernst & Young LLP
Statutory Auditor
London
23 February 2011

Company Balance Sheet
as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Investment in subsidiaries	5	**135,568**	139,640
		135,568	139,640
Current assets			
Current asset investment	6	**555**	-
Debtors	7	**3,541**	3,547
Cash at bank	8	**45**	33
		4,141	3,580
Total assets		**139,709**	143,220
Creditors: amounts falling due within one year			
Other creditors and accruals	9	**(4)**	(48)
Net current assets		**4,137**	3,532
Net assets		**139,705**	143,172
Capital and reserves			
Share capital	10	**31,401**	30,729
Share premium	11	**53,934**	50,664
Capital reserve		**1,618**	1,618
Special reserve		**44,442**	44,442
Profit and loss account		**8,310**	15,719
Equity Shareholders' funds		**139,705**	143,172
Net asset value per share			
• basic and diluted	12	**222.5p**	232.7p

These financial statements were approved by the Board of Directors on 23 February 2011 and signed on its behalf by:

Graeme Elliot
Chairman

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2010

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve[2] £000	Retained earnings £000	Total £000
1 January 2010	**30,729**	**50,664**	**1,618**	**44,442**	**15,719**	**143,172**
Profit for the year	-	-	-	-	3,364	3,364
Unrealised gains at fair value through equity	-	-	-	-	79	79
Share consideration for the HI acquisition	502	2,413	-	-	-	2,915
Scrip issue in lieu of first interim dividend	54	262	-	-	(316)	-
Scrip issue in lieu of second interim dividend	116	595	-	-	(711)	-
Dividends paid:						
First interim dividend for the year ended 31 December 2010 (8.75p)	-	-	-	-	(4,764)	(4,764)
Second interim dividend for the period ended 31 December 2009 (8.75p)	-	-	-	-	(5,061)	(5,061)
31 December 2010	**31,401**	**53,934**	**1,618**	**44,442**	**8,310**	**139,705**
1 January 2009	**16,794**	**48,009**	**1,618**	**-**	**18,236**	**84,657**
Profit for the year	-	-	-	-	3,329	3,329
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 liue of interim cash dividend	52	233	-	-	(284)	1
Dividends paid:						
First interim dividend for the year ended 31 December 2009 (8.5p)	-	-	-	-	(2,707)	(2,707)
Second interim dividend for the period ended 31 December 2008 (8.5p)	-	-	-	-	(2,855)	(2,855)
31 December 2009	**30,729**	**50,664**	**1,618**	**44,442**	**15,719**	**143,172**

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

2 The Special reserve is a distributable reserve.

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 £3.4million (2009: £3.3million).

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.

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.

Current asset investment

The current asset investment is held as an Available For Sale ("AFS") asset with any unrealised gain or loss recognised through the Statement of Comprehensive Income. The Company has taken advantage of the exemption from presenting financial instrument disclosures under the terms of FRS29 Financial Instrument Disclosures.

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

	2010 £000	2009 £000
UK Corporation tax	**1**	-
	1	-

The tax liability for Adam 2 (Jersey) Limited was settled during the year by PHP PLC.

4. Dividends

Amounts recognised as distributions to equity holders in the year:

	2010 £000	2009 £000
Second interim dividend for the year ended 31 December 2009 (8.75p) paid 26 March 2010 (2009: 8.50p)	**5,061**	2,855
Scrip issue in lieu of second interim cash dividend	**316**	284
First interim dividend for the year ended 31 December 2010 (8.75p) paid 29 October 2010 (2009: 8.50p)	**4,764**	2,707
Scrip issue in lieu of first interim cash dividend	**711**	-
	10,852	5,846
Per share	**17.5p**	17.0p

5. Investments

Investment in subsidiaries

	Shares £000	Loans £000	Total £000
At 1 January 2010	90,110	49,530	139,640
Acquisition of Health Investments Limited	10,188	-	10,188
Dividend received from Cathedral portfolio to settle intercompany loan balance	(30,236)	30,236	-
Reduction in loans to subsidiary during the year	-	(14,260)	(14,260)
At 31 December 2010	70,062	65,506	135,568
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

Notes to the Company Financial Statements continued

5. Investments continued

The principal subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and ordinary shares held
Primary Health Investment Properties Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 4) Limited [2]	Property investment	100%
Health Investments Limited [1]	Property investment	100%
PHP Healthcare (Holdings) Limited [1]	Non trading	100%
PHP Healthcare Investments (Holdings) Limited) [2]	Non trading	100%
PHP Healthcare Investments Limited [2]	Property investment	100%

1 Subsidiaries directly held by the Company.

2 Subsidiaries indirectly held by the Company.

6. Current asset investment

	2010 £000	2009 £000
As at beginning of period	**-**	-
Additions at cost	**476**	-
Unrealised gain recognised directly in equity	**79**	-
	555	-

The current asset investment is held as an Available For Sale ("AFS") asset in accordance with FRS 26. The unrealised gain on the investment is recognised directly in equity and through the Statement of Comprehensive Income. The fixed asset investment acquired during the year at a cost of £476,000 represents 1,970,500 ordinary shares in AH Medical Properties PLC and has been valued at the quoted price on 31 December 2010 of 28p per share.

7. Debtors

	2010 £000	2009 £000
VAT recoverable	**-**	3
Other debtors and prepayments	**1**	4
6% Preference dividend due from subsidiary	**3,540**	3,540
	3,541	3,547

8. Cash at bank

	2010 £000	2009 £000
Cash held at bank	**45**	33

9. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Other creditors and accruals	**4**	48
	4	48

10. Called up share capital

	2010 Number	2010 £000	2009 Number	2009 £000
Authorised:				
Ordinary Shares of 50p each	**100,000,000**	**50,000**	100,000,000	50,000
Issued and fully paid at 50p each	**62,802,333**	**31,401**	61,457,298	30,729
At beginning of year	**61,457,298**	**30,729**	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 second interim cash dividends (2009)	**108,723**	**54**	103,894	52
Scrip issue in lieu of interim cash dividend (2010)	**231,159**	**115**	-	-
Shares issued in consideration for Health Investments Limited	**1,005,153**	**503**	-	-
At end of year	**62,802,333**	**31,401**	61,457,298	30,729

There were two capital raisings during the prior year. 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). The New Shares ranked pari passu with the Existing Ordinary Shares other than in respect of the interim dividend declared on 18 August 2009 relating to the six months ended 30 June 2009.

11. Share premium

	2010 £000	2009 £000
Balance at beginning of year	**50,664**	48,009
Premium on shares placed (24 March 2009)	**-**	2,855
Issue expenses	**-**	(433)
Share consideration for the HI acquisition	**2,413**	-
Scrip issue in lieu of interim cash dividends	**857**	233
Balance at end of year	**53,934**	50,664

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 ordinary share

	2010 pence	2009 pence
Basic and diluted	**222.5**	232.7

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £139,705,000 (2009: £143,172,000) and on 62,802,333 (2009: 61,457,298) 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 £31.2million (2009: £26.1million).

14. Related party transactions

Details of related party transactions are provided in the Group Directors' Report on page 25, Directors' Remuneration Report on page 35 and notes 4 and 31 to the Group Financial Statements on pages 52 and 69 respectively. There are no employees other than the Directors, listed on pages 20 and 21.

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.

15. Subsequent events

The Company holds 1,970,500 ordinary shares in AH Medical Properies PLC ("AHMP") as a current asset investment (note 6) at its year end quoted value of 28 pence per share. On 19 January 2011, an offer was made by Assura Group Limited for the entire share capital of AHMP. The Company has elected to take the cash alternative of this offer of 40 pence per share and the cash should be received by 4 March 2011.

On 21 February 2011, the Group announced it had entered into a purchase and funding agreement for a new medical centre in Newark, Nottinghamshire, for approximately £4.2million. The Company is party to this contract as guarantor.

Shareholder Information

Financial calendar 2011

Financial year end	31 December
Announcement of Annual Results	24 February
Annual Financial Report posted	4 March
Second interim cash dividend payment (2010)	31 March
Annual General Meeting	12 April
Interim Management Statement for the quarter ended 31 March 2011	May
Half year end	30 June
Announcement of Half Year Results	August
First interim cash dividend payment (2011)	November
Interim Management Statement for the quarter ended 30 September 2011	November

Dividends

	Rate per share	xd date	Record date	Payment date
First interim 2010	8.75p	22 September 2010	24 September 2010	29 October 2010
Second interim 2010	9.00p	2 March 2011	4 March 2011	31 March 2011
2010	**17.75p**			
First interim 2009	8.50p	7 October 2009	9 October 2009	20 November 2009
Second interim 2009	8.75p	17 February 2010	19 February 2010	26 March 2010
2009	**17.25p**			

Investment Account

As described in the Group Directors' Report, the Company has made arrangements for an Investment Account to be made available to allow investors to purchase the Company's Ordinary Shares. The Investment Account Service is operated by Equiniti Financial Services 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: **www.shareview.co.uk/dealing**.

For details of the service please contact:
Equiniti
PHP Share Service
Aspect House, Spencer Road, Lancing
West Sussex BN99 6DA

Shareholder helpline: 0845 300 0430

Equiniti Financial Services 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 Equiniti 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.

Shareholder Information continued

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.

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. No PIDs have been paid by the Group since 1 January 2007.

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 Shareholders, 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. Shareholders who wish to apply for a Tax Exemption Form should contact the registrars on 0871 384 2030* or apply in writing to: Equiniti, Aspect House, Spencer Road, Lancing West Sussex BN99 6DA.

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 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 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 Equiniti. In the event of any queries regarding your holding of shares, please contact the registrars on 0871 384 2030*.

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

Equiniti Shareview dealing services

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

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

	Trade value	Percentage of trade value	Minimum charge
Telephone	£0-£50,000	1.50%	£30
	£50,001+	1.50% on first £50,000 0.20% on remainder	
Internet		1.25%	£25

There is no need to pre-register and there are no complicated forms to fill in. The online 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 online or by telephone all you need is your shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest dividend statement. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

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

- Equiniti customer services
  0845 300 0430
  (8.00am – 6.00pm Monday to Friday)
  www.shareview.co.uk/dealing

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**.

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, Phil Holland or Tim Walker-Arnott on 01483 749020.

Registered No. 3033634

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary. Lines are open 8.30am to 5.30pm Monday to Friday.

Ten Year Summary of Group Financial Performance

	UK GAAP				IFRS						
	2001	2002	2003	2004	2004	2005	2006	2007[3]	2008[4]	2009	**2010**
Net assets (£m)	23.9	29.9	37.9	49.9	39.7	57.1	71.3	124.1	78.3	151.9	**164.7**
Net asset value per share (p)											
• basic	152.5	181.3	226.8	274.7	218.8	251.9	314.5	369.4	226.7	247.2	**262.3**
• diluted	142.2	164.6	200.6	243.7	200.0	246.6	305.1	369.4	226.7	247.2	**262.3**
EPRA NAV											
• basic	-	-	-	-	-	330.8	408.0	377.1	272.9	279.9	**311.5**
• diluted	-	-	-	-	-	320.2	392.4	377.1	272.9	279.9	**311.5**
Increase/(decrease) in net asset value per share (p)											
• basic	22.8	28.8	45.5	47.9	NA	33.1	62.6	54.9	(133.6)	20.5	**15.1**
• diluted	17.2	22.4	36.0	43.1	NA	46.6	58.5	64.3	(133.6)	20.5	**15.1**
Closing portfolio including development loans and finance leases (£m)	63.5	80.1	96.3	131.1	131.1	167.1	203.8	288.9	320.2	344.9	**472.4**
Annualised rent roll (£m)	5.0	6.2	6.9	8.4	8.4	10.0	11.3	16.2	19.6	21.3	**28.0**
Profit/(loss) before taxation (£m)	1.6	2.0	2.2	2.5	NA	19.4	18.4	(3.7)	(23.7)	10.8	**25.7**
Earnings per share (p)											
• basic	9.1	11.3	11.8	13.9	NA	59.1	70.3	59.4	(62.0)	26.6	**41.3**
• diluted	8.7	10.4	10.8	12.8	NA	55.4	67.7	59.4	14.0	18.4	**14.7**
Interim and final dividend per share (p)	8.0	9.0	10.0	11.0	11.0	12.0	13.5	21.75	16.5	17.0	**17.5**
Total return per share (p)											
• basic	30.8	37.8	55.5	59.0	NA	45.1	76.1	76.7	(52.0)	37.5	**32.6**
• diluted	25.2	31.4	46.0	54.0	NA	58.6	72.0	87.7	(52.0)	37.5	**32.6**
Market price per share at 30 June/31 December (p)	149.0	180.0	179.0	245.0	245.0	310.5	404.0	314.0	290.5	289.0	**335.0**
Movement in Investment Property Databank ('IPD') Index since previous annual report [1 2]	118.6	119.4	122.7	132.5	100.0	110.4	130.1	124.5	97.0	100.3	**115.5**
Movement in diluted net asset value per share since previous annual report [1]	139.4	161.4	196.7	238.9	100.0	123.3	152.6	184.6	113.4[4]	123.7	**131.3**

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

2 Total return

3 18 month period

4 Restated - see 2009 Annual Report for details

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.

Corporate Profile and Advisers

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 5612

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
Equiniti
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA

General enquiries:	0871 384 2030*
Telephone dealing:	0845 603 7037
Online dealing:	www.shareview.co.uk/dealing

* Calls to this number are charged at 8 pence per minute from a BT landline. Other telephone providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday

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

Peel Hunt Limited
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

National Westminster Bank Plc.
135 Bishopsgate, London EC2M 3UR

Aviva Commercial Finance Limited
Surrey Street, Norwich NR1 3NJ

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Primary Health Properties PLC (the "Company") will be held on 12 April 2011 at 10.30 a.m. in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB to transact the following business. Resolutions 1 to 9 (inclusive) will be proposed as ordinary resolutions and resolutions 10 to 12 (inclusive) will be proposed as special resolutions:

1 To receive the annual report ended 31 December 2010.

2 To receive and approve the Directors' Remuneration Report for the year ended 31 December 2010.

3 To re-appoint Mr H Hyman as the Director retiring by rotation in accordance with the Articles of Association.

4 To re-appoint Dr I Rutter as the Director retiring by rotation in accordance with the Articles of Association.

5 To re-elect Mr G A Elliot as a Director of the Company being a Director subject to annual election.

6 To re-elect Mr M J Gilbert as a Director of the Company being a Director subject to annual election.

7 To re-elect Mr J D Hambro as a Director of the Company being a Director subject to annual election.

8 To re-appoint Ernst & Young LLP as auditors to the Company, to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company, and to authorise the directors to fix their remuneration.

9 That the Directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "2006 Act") in substitution for all existing authorities:

9.1 To exercise all the powers of the Company to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together "Relevant Securities") up to an aggregate nominal amount of £10,467,055; and

9.2 To exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the 2006 Act) up to an additional aggregate nominal amount of £10,467,055 provided that this authority may only be used in connection with a rights issue in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record date as the Directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever, provided that the authorities in 9.1 and 9.2 shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or if earlier on the date which is 15 months after the date of the Annual General Meeting, except that the Company may before such expiry make an offer or agreement which would or might require Relevant Securities or equity securities as the case may be to be allotted after such expiry and the Directors may allot Relevant Securities or equity securities in pursuance of any such offer or agreement as if the authority in question had not expired.

10 That subject to the passing of resolution 9, the directors be and are empowered, in accordance with section 570 of the 2006 Act, to allot equity securities (as defined in section 560(1) of the 2006 Act) for cash pursuant to the authority conferred by resolution 10 or by way of a sale of treasury shares as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to:

10.1 The allotment of equity securities in connection with a rights issue or other pro rata offer (but, in the case of the authority granted conferred by paragraph 9.2, by way of a rights issue only) in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record date as the Directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and

10.2 The allotment (otherwise than pursuant to paragraph 10.1 above) of equity securities up to an aggregate nominal amount of £1,570,058, shall expire upon the expiry of the general authority conferred by resolution 9 above, except that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

11 That the Company be and is hereby generally and unconditionally authorised, in accordance with section 701 of the 2006 Act, to make market purchases (within the meaning of section 693(4) of the 2006 Act) of ordinary shares of 50 pence each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine provided that:

11.1 The maximum number of ordinary shares authorised to be purchased is 6,280,233;

11.2 The minimum price which may be paid for an ordinary share is 50 pence (exclusive of expenses payable by the Company);

11.3 The maximum price which may be paid for an ordinary share (exclusive of expenses payable by the Company) cannot be more than the higher of:

11.3.1 105 per cent of the average market value of an ordinary share for the five business days prior to the day on which the ordinary share is contracted to be purchased; and

11.3.2 the value of an ordinary share calculated on the basis of the higher of:

(a) the last independent trade of; or

(b) the highest current independent bid for, any number of ordinary shares on the trading venue where the market purchase by the Company will be carried out; and the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

12. THAT the Company is authorised to call any General Meeting other than the Annual General Meeting of the Company on no less than 14 clear days' notice during the period beginning on the date of this Resolution and ending on the conclusion of the next Annual General Meeting of the Company.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
23 February 2011

Primary Health Properties PLC
Registered office:
Ground Floor, Ryder Court, 14 Ryder Street
London SW1Y 6QB
Registered in England No: 3033634

Notes to the Annual General Meeting

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A Shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you). Please indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

2. An appointment of proxy is provided with this notice and instructions for use are shown on the form. In order to be valid, a completed appointment of proxy must be returned to the Company by one of the following methods:
   2.1 In hard copy form by post, by courier or by hand to the Company's Registrar, Equiniti at the address shown on the form of proxy; or
   2.2 In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, and in each case must be received by Equiniti not less than 48 hours before the time fixed for the meeting. Please note that any electronic communication sent to Equiniti in respect of the appointment of a proxy that is found to contain a computer virus will not be accepted.

3. To change your proxy instructions you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA . The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others.

4. The return of a completed proxy form will not prevent a Shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual.

6. In order for a proxy appointment or instruction made using a CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equniti agent ID 7RA01 no later than 48 hours before the meeting for receipt of proxy appointment specified in the notice of meeting.

7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal systems timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

9. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the 2006 Act ("Nominated Persons"). The right to appoint proxies does not apply to Nominated Persons: they can only be exercised by the member. However, in accordance with section 149(2) of the 2006 Act, a

Nominated Person may have a right under an agreement with the registered member who has nominated him to be appointed, or to have someone else appointed, as a proxy for this meeting. If a Nominated Person does not have such right, or do not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated Persons should contact the registered member by whom they were nominated in respect of these arrangements.

10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

11. You may not use any electronic address provided either in this notice of Annual General Meeting or any related documents (including the form of proxy) to communicate with the company for any purposes other than those expressly stated.

12. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 10 April 2011 (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

13. As at 22 February 2011 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 62,802,333 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 February 2011 are 62,802,333.

14. Shareholders should note that it is possible that, pursuant to requests made by Shareholders of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company cannot require the shareholders requesting any such website publication to pay its expenses. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

15. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
    15.1 To do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information
    15.2 The answer has already been given on a website in the form of an answer to a question
    15.3 It is undesirable in the interests of the Company or the good order of the meeting that the question be answered

16. A copy of this notice, and other information required by section 311A of the 2006 Act, can be found at www.phpgroup.co.uk.

17. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
    17.1 Copies of the Executive Directors' service contracts with the Company
    17.2 Copies of letters of appointment of Non-Executive Directors

Explanatory notes for the resolutions to be put to Shareholders at the Annual General Meeting

1. Approval of Annual Financial Report (Resolution 1)

Resolution 1 is proposed to receive the Company's report of the Directors and the audited financial statements for the year ended 31 December 2010.

2. Approval of Directors' remuneration report (Resolution 2)

Resolution 2 is proposed to seek Shareholder approval of the Directors' Remuneration Report. It is mandatory for all listed companies to put their report on Directors' remuneration to an advisory Shareholder vote. As the vote is advisory it does not affect the actual remuneration paid to any individual Director. The Directors' Remuneration Report is set out on pages 35 to 36 in this Annual Financial Report.

3. Directors (Resolutions 3 to 7 inclusive)

3.1 Resolutions 3 to 7 (inclusive) deal with the re-election of Directors.

3.2 In accordance with the Articles of Association, Harry Hyman and Ian Rutter retire by rotation and, being eligible, offer themselves for re-appointment. Resolutions 3 and 4 deal with their re-appointment.

3.3 The Non-Executive Chairman, Graeme Elliot and Non-Executive Directors, Martin Gilbert and James Hambro are subject to annual re-election in accordance with A.7.2 of the Combined Code and accordingly Resolutions 5, 6 and 7 are proposed to re-elect each of them.

3.4 Biographies of all of the Directors including those standing for re-election are set out on pages 20 and 21 of the Annual Financial Report.

4. Reappointment of auditors (Resolution 8)

Resolution 8 proposes that Ernst & Young LLP be reappointed as the Company's auditors to hold office until the next annual general meeting of the Company and that the Directors be authorised to fix their remuneration.

5. Renewal of Directors' authority to allot shares (Resolution 9)

5.1 Resolution 9 deals with the Directors' authority to allot relevant securities of the Company in accordance with section 551 of the 2006 Act. The authority given to the Directors at the 2010 Annual General Meeting to allot shares expires at the conclusion of this year's Annual General Meeting. This resolution complies with guidance issued by the Association of British Insurers ("ABI") in December 2008.

5.2 As at 23 February 2011, the Company has 62,802,333 Ordinary Shares in issue, carrying one vote each. The Company does not hold any Ordinary Shares in treasury. Therefore, the total voting rights in the Company as at 23 February 2011 are 62,802,333.

5.3 Accordingly Resolution 9 seeks to renew the Director's authority to allot shares in accordance with the guidance issued by the ABI and will, if passed, authorise the Directors to allot:

5.3.1 Ordinary Shares up to a maximum nominal amount of £10,467,055 representing approximately one third of the issued share capital of the Company as at 23 February 2011; and

5.3.2 in relation to a pre-emptive rights issue only, Ordinary Shares up to a maximum nominal amount of £10,467,055 representing approximately one third of the issued share capital of the Company as at 23 February 2011.

5.4 Therefore, the maximum nominal amount of Ordinary Shares which may be allotted under this Resolution is £20,934,110.

5.5 The authority granted by this Resolution will expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or if earlier on the date which is 15 months after the date of the Annual General Meeting.

5.6 The Directors have no present intention to exercise this authority.

5.7 In accordance with the guidance issued by the ABI, where the aggregate usage by the Company of the authority granted by this Resolution exceeds one third of the nominal value of the issued Ordinary Share capital of the Company as at 23 February 2011 and the shares are issued in whole or part by way of a fully pre-emptive rights

Explanatory notes for the resolutions to be put to Shareholders at the Annual General Meeting continued

issue, where the monetary proceeds exceed one third (or such lesser relevant proportion) of the pre-issue market capitalisation of the Company, all Directors wishing to remain in office will stand for re-election at the next Annual General Meeting of the Company following the decision to make the issue in question.

6. Renewal of Directors' authority for the disapplication of pre-emption rights (Resolution 10)

6.1 Resolution 10 will, if passed, give the Directors power, pursuant to the authority to allot shares granted by Resolution 9, to allot Ordinary Shares for cash without first offering them to existing Shareholders in proportion to their existing holdings:

6.1.1 In relation to a pre-emptive rights issue or other pro-rata offer

6.1.2 In any other case, up to a maximum nominal amount of £1,570,058 which represents approximately 5% of the issued share capital of the Company as at 23 February 2011

6.2 In accordance with the statement of principles issued by the Pre-emption Group in July 2008, the Directors will ensure that other than in relation to a rights issue, no more than 7.5% of the issued share capital of the Company will be allotted for cash on a non pre-emptive basis over a rolling three year period unless Shareholders have been notified and consulted in advance.

6.3 This power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or if earlier on the date which is 15 months after the date of the Annual General Meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this Resolution has expired.

6.4 The Directors have no present intention to exercise this authority.

7. Renewal of authority to purchase the Company's own shares (Resolution 11)

7.1 The authority for the Company to purchase a maximum number of Ordinary Shares in the market, representing 10% of the issued share capital of the Company, expires at the conclusion of the Annual General Meeting. It was not used in the year to date. Resolution 11 proposes to renew this authority for a further year.

7.2 If passed, Resolution 11 gives authority for the Company to purchase up to 6,280,232 of its Ordinary Shares, representing just under 10% of the Company's issued share capital as at 23 February 2011.

7.3 Ordinary Shares will not be bought at a price of less than 50 pence each being the nominal value of each share, nor more than 5% above the average middle market quotation of the Ordinary Shares over the preceding five business days, nor will they be purchased during periods when the Company would be prohibited from making such purchases. Purchases will be made within guidelines set by the Board and using available reserves. Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly.

7.4 The Directors intend to exercise this authority when they believe that the effect of such purchases will be to increase the underlying value per Ordinary Share having regard to the interests of Shareholders generally. The Directors will only exercise the authority to purchase Ordinary Shares where they consider that such purchases will result in an increase in earnings per Ordinary Share in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position of the Group.

7.5 The Directors do not have a current intention to exercise the authority granted by this Resolution.

7.6 The Company may cancel any Ordinary Shares it purchases under this authority.

8. Notice of general meetings (Resolution 12)

Resolution 12 seeks approval to renew for a further year, the authority granted for the calling of general meetings on 14 clear days' notice passed at the 2009 Annual General Meeting. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Shareholders' Rights Directive before it can call a general meeting on 14 clear days' notice.

9. Inspection of documents

Copies of the Executive Director's service contract with the Company and letters of appointment of the Non-Executive Directors will be available for inspection at the Company's registered office Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB from 4 March 2011 until the time of the Annual General Meeting during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting from 15 minutes prior to and during the meeting.

10. Recommendation

The Directors consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed Resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 195,921 Ordinary Shares representing approximately 0.31% of the issued share capital of the Company (excluding treasury shares).

St Mary’s Surgery, Southampton
750 sq m, purchased in June 2010 as part of the HI portfolio

A modern, purpose built health centre development completed in 2003 as part of the Southampton Docklands Regeneration Scheme. The centre is fully let to an eight doctor practice and serves over 12,000 patients.

Primary Health Properties PLC

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

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