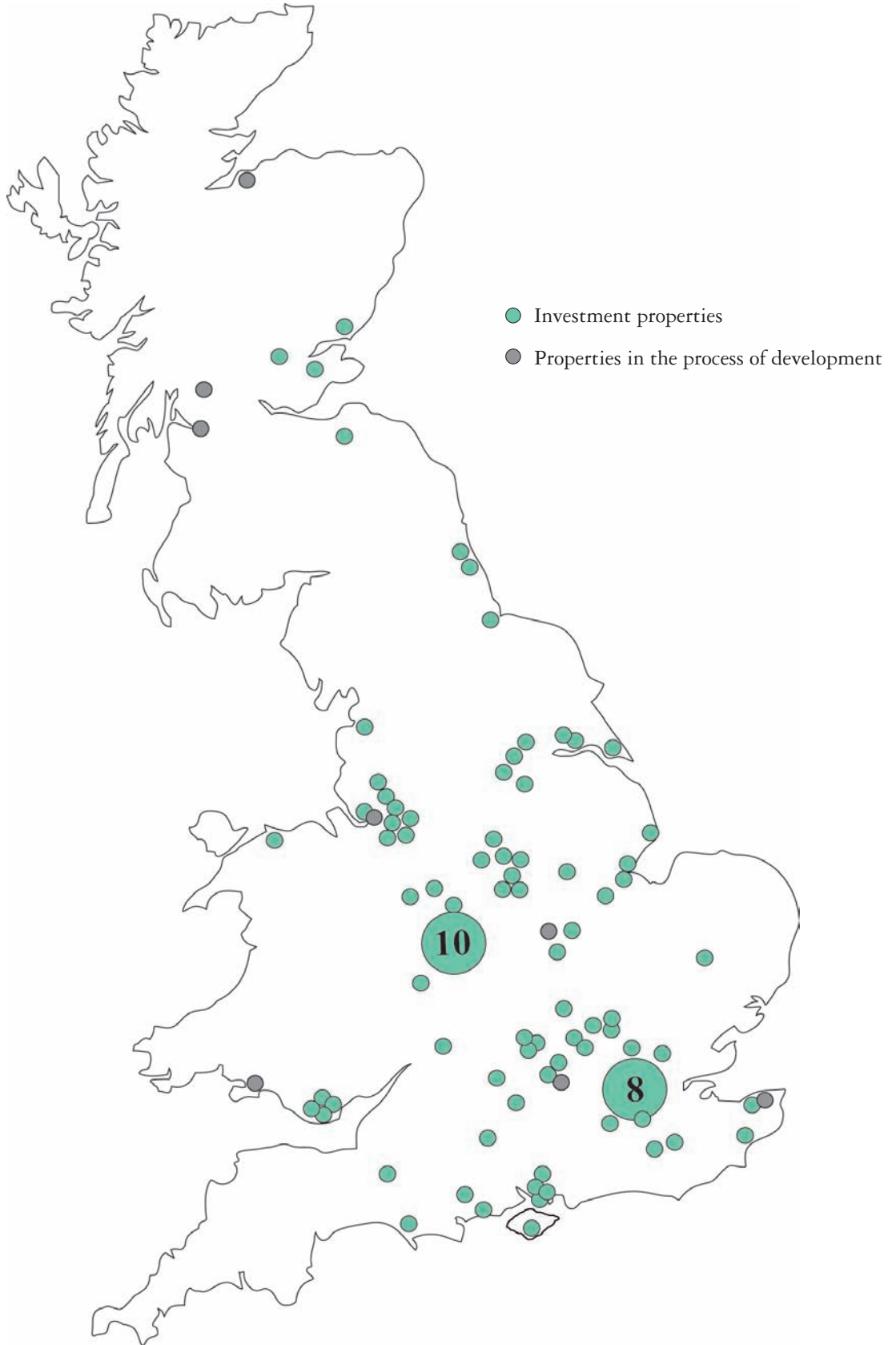


Primary Health Properties PLC

Report for the eighteen month period ended 31 December 2007

Map showing location of Properties



PHP has 99 completed properties and eight in the course of development.
Visit the Group's website www.phpgroup.co.uk for more information on properties contained within the portfolio.

Objective of the Group

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

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Chairman's Statement

Since the last reported audited figures the Group has achieved a number of important milestones:

- it has acquired or taken delivery of £76.7m of assets
- its portfolio including commitments is now £324m
- it has 107 primary care centres (99 completed and eight contracted)
- net asset value increased to 369.4p per Ordinary Share
- £40m of gross equity capital was raised (excluding the exercise of Management Options)
- new term loan facilities of £50m have been arranged
- 23.25p of dividends paid in relation to the eighteen month period including 8.25p paid per Ordinary Share on 28 March 2008

In addition, on 1 January 2007, PHP converted into a REIT, thereby releasing £30m of deferred tax liabilities and incurring a conversion charge of £5.1m.

The market in which the Group operates remains strong and while there has been uncertainty in other parts of the property sector, investor and tenant demand for modern primary health care facilities remains high. The Group has an excellent portfolio of modern properties with secure long leases, high quality tenants and the prospect of continued rental growth flowing through into dividends. The Group has substantial resources to continue with its strategy for growth through:

- selective investment in appropriate new opportunities
- minimising development risk
- sourcing new investments from several developers.

This report covers the statutory reporting period for the eighteen months ended 31 December 2007, which follows the change of the Group's year-end to 31 December. The results of the Group for each of the past five periods of six months are shown in the table overleaf. The annualised results for the last two calendar years (31 December 2007 and 31 December 2006) are also summarised. The results of the previous statutory reporting year to 30 June 2006 are included in the main body of the financial statements.

Financial information is provided in various sections of the Chairman's Statement below. This information has been extracted from the following sources:

- information at 31 December 2007 and the eighteen month period then ended, from the Group's financial statements;
- information at 30 June 2006 and for the year then ended, from the Group's annual financial statements; and
- information for various six month periods, has been extracted from interim accounts and other internal reports.

Chairman's Statement (continued)

Results

Group financial highlights

	Eighteen months to 31 December 2007	Six months to 31 December 2007	Six months to 30 June 2007	Six months to 31 December 2006	Six months to 30 June 2006	Six months to 31 December 2005	Twelve months to 30 June 2006
<i>Income statement:</i>							
Annualised delivered rent roll	£16.2m	£16.2m	£14.5m	£13.3m	£11.3m	£11.1m	£11.3m
(Loss)/profit before taxation	(£3.7m)	(£18.0m)	£5.3m	£9.0m	£9.0m	£9.4m	£18.4m
Profit/(loss) after taxation	£16.8m	(£18.0m)	£5.2m	£29.6m	£8.2m	£7.7m	£15.9m
<i>Balance sheet:</i>							
Revaluation surplus/ (deficit)	£4.9m	(£13.6m)	£5.1m	£13.4m	£7.2m	£7.8m	£15.0m
Net assets	£124.1m	£124.1m	£151.1m	£102.2m	£71.3m	£62.3m	£71.3m
Shares in issue at period end	33.6m	33.6m	33.6m	24.3m	22.7m	22.7m	22.7m
NAV per share	369.4p	369.4p	449.8p	420.9p	314.5p	274.7p	314.5p
Portfolio owned and leased including leases	£288.3m	£288.3m	£282.5m	£260.3m	£202.1m	£185.9m	£202.1m
Commitments including deposits and development loans	£35.9m	£35.9m	£38.5m	£33.5m	£22.7m	£24.0m	£22.7m
Portfolio owned leased and committed	£324.2m	£324.2m	£321.0m	£293.8m	£224.8m	£209.9m	£224.8m
Earnings per share – Basic	59.3p	(53.6p)	18.9p	125.4p	36.2p	33.0p	70.3p
Dividends relating to the period per share	23.25p	8.25p	7.50p	7.50p	6.75p	6.75p	13.50p
Bank debt net of cash	£155.3m	£155.3m	£132.0m	£149.4m	£108.8m	£99.8m	£108.8m
Gearing debt as % gross assets	56.2%	56.2%	47.3%	60.0%	61.2%	62.1%	61.2%

To enable a direct comparison on an annualised basis, the key results for the twelve months ended 30 June 2007 and 2006 were as follows:

	Twelve months to 30 June 2007	Twelve months to 30 June 2006
Annualised delivered rent roll	£14.5m	£11.3m
Profit before taxation	£14.3m	£18.4m
Profit after taxation	£34.8m	£15.9m
Earnings per share – Basic	135.7p	70.3p
Dividends relating to the period per share	15.0p	13.5p

To assist shareholders the profit for the respective periods has been further analysed below:

Chairman's Statement (continued)

	Eighteen months to 31 December 2007 £'m	Twelve months to 31 December 2007 £'m	Twelve months to 31 December 2006 £'m	Twelve months to 30 June 2006 £'m
Rental and related income	22.2	15.7	12.2	11.1
Revaluation gains/(losses) on property portfolio	4.9	(8.6)	20.6	15.0
Impairment loss	(3.8)	(3.8)	–	–
Gain on disposal of property	–	–	0.4	0.4
	<u>1.1</u>	<u>(12.4)</u>	<u>21.0</u>	<u>15.4</u>
Administration expenses				
Management fee	(3.2)	(2.2)	(1.5)	(1.5)
Incentive fee	(2.6)	(1.8)	–	–
Other	(1.8)	(1.4)	(2.1)	(1.2)
	<u>(7.6)</u>	<u>(5.4)</u>	<u>(3.6)</u>	<u>(2.7)</u>
Profit/(loss) before interest and exceptional items	15.7	(2.1)	29.6	23.8
Exceptional items				
UK-REIT conversion costs	(0.2)	–	(0.2)	–
Goodwill impairment	(5.5)	(0.2)	(5.3)	–
	<u>(5.7)</u>	<u>(0.2)</u>	<u>(5.5)</u>	<u>–</u>
Profit/(loss) after exceptional items before interest	10.0	(2.3)	24.1	23.8
Development loan interest	0.9	0.8	0.2	0.3
Mark to market loss on non-hedging derivatives	(2.8)	(2.8)	–	–
Loan interest (net of interest receivable and swap interest)	(11.8)	(8.4)	(6.3)	(5.7)
	<u>(13.7)</u>	<u>(10.4)</u>	<u>(12.4)</u>	<u>(11.1)</u>
(Loss)/profit before taxation	(3.7)	(12.7)	18.0	18.4
Current taxation	(0.1)	(0.1)	0.5	0.5
Conversion to UK-REIT charge	(5.1)	–	(5.1)	–
Deferred taxation	(3.9)	–	(5.2)	(2.9)
Deferred taxation release on conversion to UK-REIT	29.6	–	29.6	–
	<u>20.5</u>	<u>(0.1)</u>	<u>19.8</u>	<u>(2.5)</u>
Profit/(loss) after taxation	<u>16.8</u>	<u>(12.8)</u>	<u>37.8</u>	<u>15.9</u>

Chairman's Statement (continued)

Performance

The performance for the eighteen months can be divided into three very distinct periods. The six months prior to conversion to a UK-REIT when the property market was firm, six months as a UK-REIT when the property market remained firm and the most recent six months when the property market was weakening.

The property market performed differently in each six month period. During the six months to 31 December 2006, the market was buoyant and yields continued to fall. During the first half of 2007, yields fell but at a slower pace. In the second half of 2007, the market began to decline with yields softening by about 35 basis points. The balance sheet includes the results of the period end valuation by LSH, which has resulted in a revaluation surplus of £4.9m.

Financial Adjustments

The results for the eighteen month period have also been affected by various other matters arising in the six months to 31 December 2006. These include the release of deferred tax liabilities (£29.6m), the goodwill write off relating to the purchase of Cathedral (£5.5m) and the REIT conversion charge (£5.1m). None of these items had comparables in any other period.

The loss after tax of £18.0m for the six months to 31 December 2007 includes an impairment loss of £3.8m on property under development.

Financial Instruments

As at 31 December 2007 the mark to market valuation of the Group's interest rate swaps showed a £9.3m reduction in value from 30 June 2007 and a reduction of £2.7m during the eighteen month period under review. £0.1m has been recorded as a movement in equity in relation to interest rate swaps qualifying for hedge accounting and £2.8m has been recorded in the Group Income Statement. The swaps were entered into at various dates to hedge the Group's exposure to higher interest rates and to improve cash flow. The mark to market value fluctuates with movements in term interest rates and, in the case of the callable swaps, with market volatility. In the earlier two six month periods, the mark to market valuation of the interest rate swaps qualifying for hedge accounting showed gains of £6.0m and £0.5m respectively.

Both the revaluation adjustment to the property portfolio and the mark to market valuation of swaps represent unrealised adjustments and do not affect cash flow. During the period, the average rate of the swaps was lower than the prevailing LIBOR rate, thus saving the Group considerable cash outflow. The swaps have also mitigated the Group's exposure to interest rate risk.

Discounted Cash Flow Property Valuation

In addition to the market value exercise performed by LSH, the Joint Managers monitor the value of the Group's completed investment portfolio based on a discounted cash flow analysis. On this basis, the valuation at 31 December 2007 is £316.1m, compared to the market value of £281.7m. The difference of £34.4m represents an additional 102.4p of net asset value per share. The assumptions used in the discounted cash flow analysis are a discount rate of 7%; an average increase in the individual property rents at their respective review dates of 3%; and capital growth of residual values of 1% per annum.

Dividends

On 28 March 2008, the Group paid an ordinary cash interim dividend of 8.25p per Ordinary Share in respect of the six months ended 31 December 2007. This compares to 7.5p for each of the two previous interim dividends, paid on 22 May and 23 November 2007. The decision to pay three interim dividends for the eighteen month period, rather than two interim and one final dividend, was to accelerate payment of dividends to Shareholders.

Chairman's Statement (continued)

Borrowings

In March 2008, the Group entered into a £50m secured facility to augment its existing facilities of £200m, resulting in current facilities of £250m. £160m was drawn at 31 December 2007 and, taking into account existing outstanding commitments of £36m, this leaves a further £54m of facilities available to the Group to continue with its acquisition policies. These term facilities mature in 2013.

Total borrowings at 31 December 2007 were £160m. The Group has £145m of fixed rate cover including £55m of callable swaps. Loan to value at the period end was 56% and interest cover (as defined within the loan facility agreements) was 1.8 times.

Revenues, Administration Expenses and Net Asset Value

At a trading level, revenues for the eighteen month period increased to £22.2m as a result of favourable rent reviews and new deliveries and operating profit before financing costs was £10.0m. The eighteen month period to 31 December 2007 saw the effect of the inclusion of a Management Incentive Fee of £2.6m rather than the previous management share option scheme. The eighteen month period was also affected by the UK-REIT conversion charge of £5.1m and other non recurring costs. During the eighteen month period the diluted net asset value per share rose from 305.1p to 369.4p.

Management Incentive Scheme

The results for the two six month periods ended 31 December 2006 and 30 June 2007 also incorporated the Management Incentive Fee approved by Shareholders in November 2006 which replaced the management share option scheme. There is no Management Incentive Fee payable for the last six month period and, under the terms of the scheme, the deficit in Total Return has to be made up before any fee is payable in future years.

Portfolio

During the period, the Group has taken delivery of £76.7m completed and let properties, at locations noted on page 8 in the acquisitions table in the Managing Director's Report, and also entered into additional new commitments totalling £18.4m.

The table below sets out the portfolio as at 31 December 2007.

	31 December 2007 £m	31 December 2006 £m	30 June 2006 £m
Investment properties	281.7	245.5	197.5
Development properties	2.8	9.5	–
Properties in the course of development	0.8	2.8	2.1
Total investment properties	285.3	257.8	199.6
Finance leases	3.0	2.5	2.5
Total owned and leased	288.3	260.3	202.1
Development loans	0.2	1.2	1.7
Total owned and leased (including development loans)	288.5	261.5	203.8
Deposits paid	–	0.1	0.1
Committed	35.7	32.2	20.9
Total owned, leased and committed	324.2	293.8	224.8
Closing annualised rent roll	16.2	13.3	11.3

Chairman's Statement (continued)

The Group's portfolio of 107 properties (including eight contracted schemes) is almost 100% let with an average lease length outstanding of 18.4 years. 89% of the rent roll is paid for directly or indirectly by the NHS and most of the balance is let to pharmacy operators. The closing rent roll at 31 December 2007 was £16.2m compared to £14.5m at 30 June 2007. Between 31 December 2007 and 30 June 2006, 93% of the increase related to new deliveries and 7% to rental increases secured during the period.

Financing

In April 2007, the Group completed a Placing and Open Offer, raising £38.7m net of expenses and thereby expanding its shareholder base. The Placing and Open Offer resulted in 9,309,376 new Ordinary Shares being issued on 11 April 2007.

Other matters

The Share Plan allowing investors to purchase the Company's Ordinary Shares by lump sum or regular payments currently has 39 members holding 105,299 Ordinary Shares. Further details can be found on the website www.phpgroup.co.uk and www.capitaregistrars.com/php.

The Notice of the Annual General Meeting, explanatory circular and proxy card for the Annual General Meeting to be held on 17 June 2008 at 2.30 pm are enclosed with the Annual Report.

The Board intends to appoint a third Independent Non Executive Director.

Outlook

Unlike some sectors of the property market, the supply of new purpose built accommodation for the delivery of primary care services is very limited with nearly all space being developed on a pre-let basis. Accordingly, there is little or no speculative building of space. As a result, the sector does not suffer from the potential oversupply of space that may affect other sectors of the property market.

At 31 December 2007, the Group had £35.7m of commitments. By 31 March 2008 all of these transactions except two, amounting to £9.2m, had been delivered. At the date of this statement there is no change to the Group's commitment position. The Group has several deals in solicitors' hands, but is currently adopting a prudent policy with regard to entering into forward commitments.

The Group remains a leader in its niche market, with secure cash flows and a strong forward pipeline of new properties. Future growth will be driven by these additions and further rental increases from the portfolio, which continues to perform well. Despite the recent turmoil in banking and money markets, the Board is satisfied with the Group's funding position and remains optimistic about the prospects for the Group.

G A Elliot
Chairman
9 April 2008

Managing Director's Report

Property Portfolio

The table in the Chairman's Statement sets out the development of our portfolio during the period under review. We took delivery of twelve new developments, acquired nine modern purpose built investments (2006: twelve new developments) and entered into a further six commitments on developments in the course of construction at the period end (2006: seven development commitments). At the period end the portfolio, when commitments are included, reached £324.2m (2006: £224.8m).

Portfolio Purchases during the period

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

Property	Acquisition Cost £m	Occupational Tenants
30 June 2006 to 31 December 2006		
Barlow Medical Centre, Didsbury	4.2	Doctors' Practice and Pharmacy
Springs Health Centre, Clowne	3.5	Doctors' Practice and Pharmacy
Oaklands Health Centre, Hythe	2.7	Doctors' Practice and Pharmacy
Chapelfield Medical Centre, Wombwell	3.2	Doctors' Practice and Pharmacy
St Georges Medical Centre, Sheerness*	2.6	Doctors' Practice and Pharmacy
Hetherington Group Medical Practice, Clapham*	2.6	Doctors' Practice
Hailey View Surgery, Hoddesdon*	2.6	Doctors' Practice
Central Milton Keynes Medical Centre*	3.3	Doctors' Practice and Pharmacy
Oxted Therapies Unit*	4.0	PCT Treatment Centre
St Stephens Gate Medical Centre, Norwich*	6.1	Doctors' Practice and Pharmacy
31 December 2006 to 30 June 2007		
Jubilee Health Centre, Wednesbury	1.6	Doctors' Practice and Pharmacy
Ouse Valley Practice, Handcross*	3.5	Doctors' Practice
Frederick Treves House, Poundbury	5.9	2 Doctors' Practices, PCT and Pharmacy
Penkridge Medical Practice	3.2	Doctors' Practice and Pharmacy
Leslie Medical Centre	2.3	Doctors' Practice and Pharmacy
30 June 2007 to 31 December 2007		
Kippax Health Centre	4.9	Doctors' Practice, PCT and Pharmacy
Brough Ambulance Station	2.5	Ambulance Station and PCT Accommodation
The Glenn Medical Centre, Hebburn	5.2	Doctors' Practice, PCT and Pharmacy
Sandown Medical Centre, I.o.W.	3.7	Doctors' Practice and Pharmacy
Waterloo Health Centre, Huddersfield	2.0	Doctors' Practice and Pharmacy
Robin Hood Lane Health Centre, Sutton*	7.1	Doctors' Practice
Total	76.7	

* properties acquired as part of the Group's acquisition of Cathedral Healthcare Holdings Limited (now PHIP CHH Limited).

Managing Director's Report (continued)

Property Disposals during the period

The Group disposed of one property during the period. This was a former doctors' surgery, where the tenant had been relocated to a new PHP facility and which was sold for residential development at a price above its investment value. The property was valued at £0.40m at 30 June 2006 and disposed of in October 2006 realising a gain of £0.04m.

Revaluation

As reported in the Chairman's Statement, the portfolio valuations have resulted in a surplus for the eighteen month period of £4.9m which has been incorporated into the Group Balance Sheet, giving a closing investment property valuation of £281.7m (2006: £197.5m).

The revaluation adjustments for each of the three six month interim periods were 31 December 2007: loss of £13.6m, 30 June 2007: gain of £5.1m, 31 December 2006: gain of £13.4m.

The £4.9m increase amounted to 17.3p per Ordinary Share on both a basic and diluted basis.

The valuation surplus reflects the impact of our successful rent reviews. There has been a softening of investment yields throughout the UK commercial property market in the latter half of 2007 and, despite the long leases and secure covenants that typify our portfolio, it has not been immune. Notwithstanding this, and an increased number of players in the market, the Group has a good pipeline of investments.

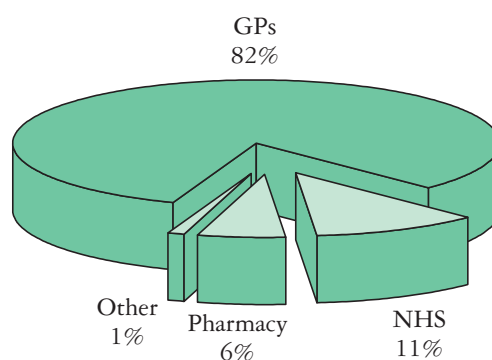
Portfolio Rental Levels

The average rent for medical centres across the whole portfolio at the period end is approximately £169 per square metre ('psm') (2006: £162 psm). The average rent on accommodation let to the NHS (either directly or through the Doctors' Rent and Rates Scheme) is approximately £196 psm (2006: £157 psm) and the average pharmacy rent is approximately £239 psm (2006: £220 psm). The weighted average length of time to the next review is 1.6 years (2006: 1.8 years) across the portfolio.

Tenant	Area (sqm)	Area (sqft)	Rent (£psm)	Rent (£psf)
GPs	78,342	842,961	161	15
NHS	10,150	109,214	196	18
Pharmacy	5,742	61,779	239	22
Other	1,380	14,854	160	15
Total	95,614	1,028,808	169	16

Tenancy Split by Floor Area

The chart below indicates tenancy split by floor area (psm):



Managing Director's Report (continued)

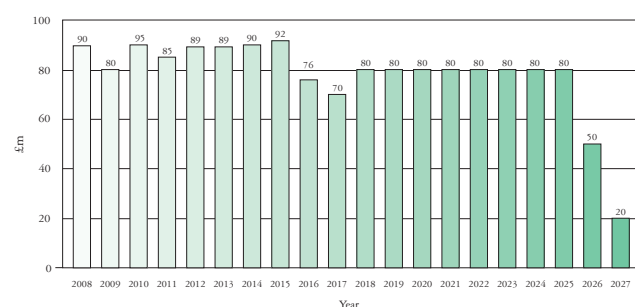
Rent Reviews

The Group completed a number of rent reviews during the period and there are a number of reviews outstanding that we expect to be resolved during the coming year. The results of the reviews completed during the period added £365,000 to our rent roll. There are further reviews due from the past year which amount to some £3m of rent passing. We have accounted for an amount based on expected outcomes. The chart on page 12 shows the timing of reviews across the portfolio. The pace of reviews is now picking up as more evidence is presented through the market and more premises go through the review process. The average increase in rent as a percentage of passing rent over the three year review process has been 11% (2006: 11%) equating to 3.39% p.a. (2006: 3.39%p.a.).

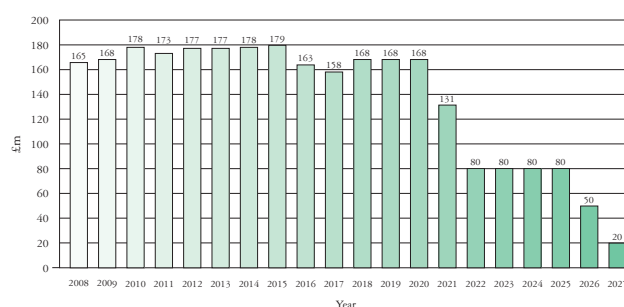
Finance and Interest Rate Hedging

Bank borrowings increased from £112.8m to £159.9m during the period, of which the amounts shown in the table below have been hedged by interest rate swaps at an average weighted cost rate of 4.78% (2006: 4.89%) (excluding the lenders' margins).

During the period, a number of interest rate swaps have been entered into extending the maturity and quantum of the Group's cover under hedging arrangements as shown below.



The bar chart above shows the level of bank borrowings hedged by interest rate swaps for each of the next twenty financial years (assuming callable swaps are not called).



The bar chart above shows the level of bank borrowings hedged by both hedge accounted interest rate swaps and callable swaps for each of the next twenty financial years.

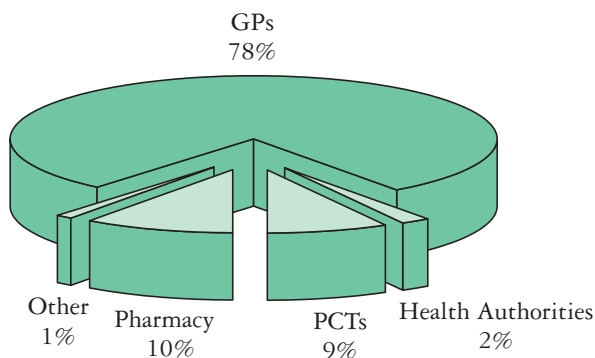
Portfolio Characteristics

Users

The pie chart overleaf shows the percentage of our portfolio by rent roll derived from each of our major tenant classes, GPs, PCTs, Health Authorities, pharmacy operators and others. Some 99% (2006: 99%) of our rent roll comes directly or indirectly from the NHS, GPs, PCTs and pharmacy operators.

Managing Director's Report (continued)

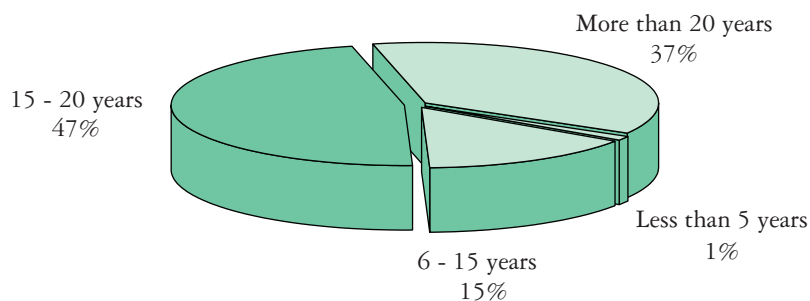
Covenant Analysis by Annual Rent



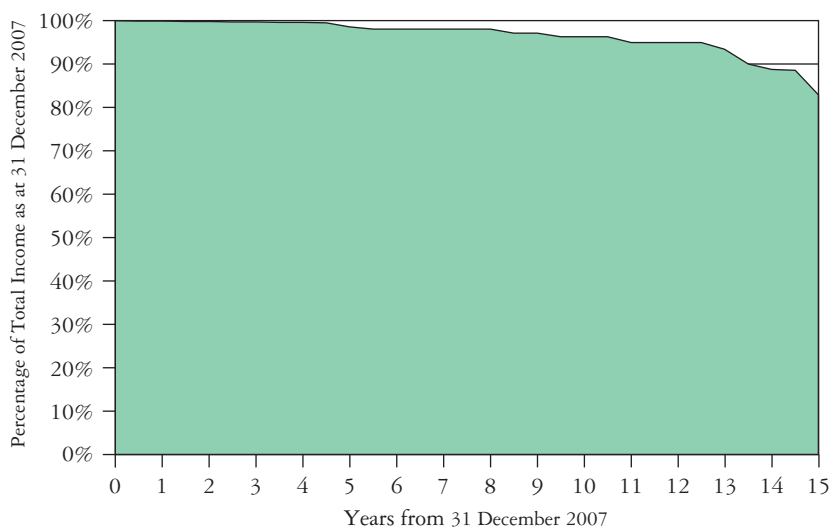
Length of Leases

The diagram below shows the analysis of rent by expiry term. A second diagram reflects security of income by term certain. The pie chart indicates that some 84% (2006: 95%) of the lease income has more than 15 years unexpired, whilst the security of the income by term certain diagram shows the rental cashflow as a percentage of the year end rent roll, ignoring any increases and any lease renewals during the subsequent periods. This shows that by year 15 the Group would still be receiving 84% of its current income, without further action.

Analysis of Annual Rent by Term Unexpired



Security of Income by Term Certain

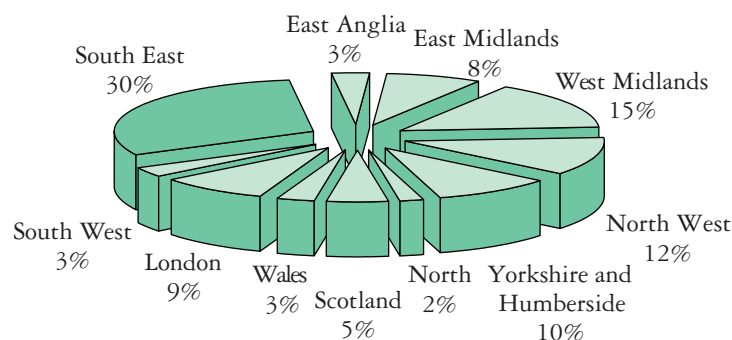


Managing Director's Report (continued)

Geographical Spread

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

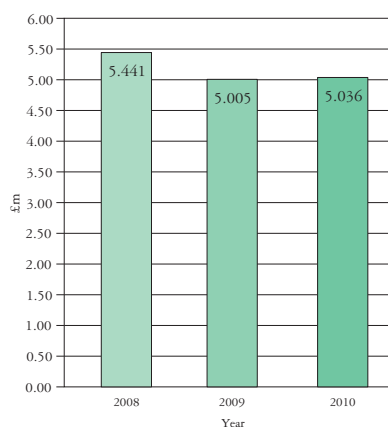
Annual Rent by Region



Forthcoming Rent Reviews

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

Rent Reviews by Annual Rent



The Primary Care Market

The National Health Service ("NHS"), which this year celebrates its sixtieth birthday, is an integral part of life in Britain and is an important and large part of overall Government spending.

The NHS budget is some £110bn for 2008/9. We believe that, whichever political party is in power, the twin drivers of demography (an ageing population) and technology (the ability to perform more procedures and diagnostics outside of major facilities) will ensure that spending on health will continue to rise by at least the increase in the country's GDP. Moreover Government policy is to continue to switch large amounts of activity and budget into the primary care arena.

To put it in context there are 1 million patient visits to primary care per day and the GP remains the gatekeeper to the NHS.

This means that the demand for modern purpose built medical centres remains high. Although at some stages and in some parts of the UK, revenue budgets out of which primary care rents are paid remain under pressure, the NHS overall is believed to have a surplus for 2007/8. Spending in parts of the UK that have greater requirements and greater flexibility over funding, such as Wales and Scotland, have seen greater amounts of new building sanctioned in the last 18 months.

Managing Director's Report (continued)

However, the period has seen however a major dislocation in the re-organisation of the PCT structure within England and this led to delays in approving new projects within England.

The period under review also saw the publication of Professor Lord Darzi's report "our NHS our future" which specifically identified the need for at least 100 more GP surgeries and 150 new polyclinics. This is all positive for the continued expenditure of capital on the primary care estate.

Primary Care Property Market

Within the primary care property market, the pricing of investments has followed general market trends. For the 18 month period, this has meant that yields tightened during the period to September 2007 after which, notwithstanding the undoubted nature of the covenant behind some 89% of our rent roll and the long lease lengths, yields have moved out. At 31 December 2007, our advisers reported to us that initial yields were approximately 5.5%. It is worth noting that the sector has not seen the very dramatic movement out of yields seen in more secondary property sectors, because the demand from investors for this type of property remains high. It is also our belief that there is little chance of oversupply of product as there are few, if any, speculative developments of primary care space for the NHS market and all new rent reimbursements are subject to lengthy approval processes and are controlled both by the Health Authorities and PCTs and also by the District Valuer's office. Similarly, there are few voids in the sector and particularly in our portfolio. The risk of oversupply and voids are twin spectres that affect pricing in other parts of the property market.

These features are part of the reason why adequate banking finance continues to be available – although it is worth noting that pricing for new facilities has risen as banks and other funding institutions seek to recover losses incurred elsewhere in their portfolios.

Adding Value

Our portfolio now has over 100 properties. We have a number of these properties where there could be extensions or where there is land adjacent to the surgeries for new development. We are exploring ways of adding value through the development of these situations. In the period, we carried out our first small 'own development' – constructing on a pre-let basis a pharmacy adjacent to our existing medical centre at Broxbourne. The returns from this for the Group were satisfactory.

Elsewhere, as the majority of our leases have a three year review pattern, we have a large number of leases due for rent review in 2008 and in respect of the last 18 month period. As reported elsewhere, the average rental increase obtained during the period was 11%. We are investigating challenging the judge and jury nature of the review process in terms of the use by the Government of the District Valuer's office.

Future Prospects

As we are not a developer, our business model does not require us to continue to buy property. However, we do have strong links with a number of developers who have good pipelines of deals for us to transact at sensible prices in the current period. Where necessary, we have adjusted purchase yields to reflect the changes in the more general property market.

In addition, we are looking at a number of situations where vendors have companies pregnant with capital gains to sell which enable us, as a UK-REIT, to purchase the assets in a tax efficient manner.

We believe that the investments we are purchasing reflect good long term value for the Shareholders. We look forward to reporting more progress in the growth of our portfolio over the coming 12 month period.

Harry Hyman
Managing Director
9 April 2008

Directors and Managers

Graeme Elliot, aged 65, 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*†, aged 60, Appointed 1 May, 2007. Non-Executive Director. Chairman of the Audit Committee, Management Engagement and Nomination Committees and a Senior Independent Director. A Chartered Accountant and recently retired from PricewaterhouseCoopers LLP, 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 having been elected by the UK partners. He has been a Member of the Financial Reporting Review Panel since 1 January 2006.

Harry Hyman, aged 51, Managing Director. Appointed February 1996. 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, of which Nexus PHP Management Limited is a subsidiary. He is also a non-executive director of a number of other companies including General Medical Clinics PLC and Royal London UK Income & Equity Trust PLC.

James Hambro, aged 59, Non-Executive Director. Appointed February 1996. Mr Hambro is chairman of J O Hambro Capital Management Group Limited and its subsidiaries and corporate entities, including J O Hambro Capital Management Limited, Joint Manager and Company Secretary of Primary Health Properties PLC. He is also a director of Singer and Friedlander AIM 3 VCT PLC, Hansteen Holdings PLC and Wichford Property Management Limited.

Martin Gilbert, aged 52, Non-Executive Director. Mr Gilbert is chief executive of Aberdeen Asset Management PLC. Clients of its wholly-owned subsidiary Aberdeen Asset Managers Limited hold 4.62% of the total voting rights of Primary Health Properties PLC. He is also chairman of FirstGroup PLC, Chaucer PLC and a director of a number of investment trusts.

William Hemmings, aged 42, acts as an alternate to Martin Gilbert. Appointed March 2000. Mr Hemmings is Head of Investment Companies at Aberdeen Asset Managers Limited.

Dr Ian Rutter O.B.E*†, aged 54, Non Executive Director. Appointed to the Board and the Audit Committee on 22 September 2005. He has been a General Practitioner for 24 years with the Westcliffe Practice in Shipley, Yorkshire previously First Wave and Total Purchasing Practice. Until January 2006 he was 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 Clinical Advisor in the Policy & Strategy Directorate of the Department of Health and a Deputy Director of the Primary Care and Commissioning Role. Former Joint Chief Executive Officer of Airedale PCT and North Bradford PCT, he has also worked as an associate of the Prime Minister's Delivery Unit and has worked at a senior level within the Department of Health and on committees such as Payment by Results. Dr Rutter retains an ongoing clinical commitment and was made O.B.E. for Services to Medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations.

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

† Independent.

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

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

Group Report of the Directors

The Directors' Report is for the eighteen months ended 31 December 2007. The period under review covers the six months to 31 December 2006 when the Group did not operate as a United Kingdom Real Estate Investment Trust ("UK-REIT") and twelve months ended 31 December 2007 as a UK-REIT. The Group became a UK-REIT on 1 January 2007 and changed its accounting reference date to 31 December. In the opinion of the Directors, the Group has conducted its affairs so as to be able to continue as a UK-REIT.

Principal Activity

The principal activity of the Group is the generation of rental income and capital growth through investment in primary healthcare property in the United Kingdom leased primarily to GPs, Primary Care Trusts ("PCTs"), health authorities and other associated health care users.

Results

The profit after tax for the eighteen months ended 31 December 2007 amounted to £16.8m (year to 30 June 2006: £15.9m).

Business Review for the eighteen months ended 31 December 2007

The Group's investment policy is to acquire the freehold and long leaseholds of modern, purpose built primary healthcare properties. Each property considered for purchase by the Group is first evaluated for its income and asset value growth potential. A review of the performance and the development of the Group's business during the period (as required by section 417 of the Companies Act 2006) is included in the Chairman's Statement incorporated into this report by reference. The key performance indicators (KPI's), position at the year end and prospects are set out on pages 5 to 7 in the Chairman's Statement and the Managing Directors' Report on pages 8 to 13. A description of the principal risks and uncertainties facing the Group and how they can be mitigated is detailed below. The Board is not aware of any material environmental issues affecting the Group's utilisation of its assets. The Report provides information to shareholders of the Group. It contains forward looking statements relating to the Group's outlook. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances. These statements reflect the knowledge and information available at the time of the preparation and publication of the Annual Report. Nothing in this Report should be construed as a profit forecast.

Since the end of the financial period, the Group has signed a £50m secured debt facility agreement with Abbey National Treasury Services plc to add to its existing facilities of £200m, making total debt facilities available to the Group of £250m.

Details on the portfolio, capital and funding are given in the Chairman's Statement, Managing Director's Report and notes 9, 16, 17 and 18 to the financial statements.

Valuation of the properties

A valuation of the Group's property portfolio at 31 December 2007 was carried out by Lambert Smith Hampton on the basis of market value. Details are given in the Chairman's Statement and the Managing Director's Report.

Dividends

Two interim dividends per Ordinary Share were paid in respect of the eighteen months ended 31 December 2007 on 22 May 2007 (7.5p) and 23 November 2007 (7.5p). To advance payment to shareholders, instead of a final dividend, a third interim dividend of 8.25p was paid on 28 March 2008. No final dividend is proposed by the Directors for declaration at the Annual General Meeting. Further details of the Group's status and the tax treatment of distributions for shareholders is given on page 97 of the Report. The Group's policy is to pay a minimum of 90% of the profits of its tax exempt business in dividends and in accordance with UK-REIT legislation.

Group Report of the Directors (continued)

Use of financial instruments

The Group's treasury operations are co-ordinated and managed in accordance with policies and procedures approved by the Board. They are designed to mitigate the financial risks faced by the Group as detailed below. The Group continues to monitor its exposure to interest rates and the Group's policy is to enter into interest rate swaps as necessary to hedge cash flow risk on bank borrowing requirements, over the long term.

The Group's financial instruments comprise bank borrowings, interest rate swaps, investments in financial leases, development loans and trade related debtors and creditors that arise directly from its property holding operations.

During the period, the Group consolidated its swap portfolio and, as part of its continuing liability management programme, the Group:

- Firstly, purchased a £20m interest rate swap at 4.76% covering the period from July 2017 to July 2027. This will be accounted for as a hedge.
- Secondly, entered into a swap of 4.835% for principal amounts £20m from August 2007 to November 2007, £30m from November 2007 to February 2008, £40m from February 2008 to May 2008 and £50m thereafter.
- Thirdly, entered into a swap of 4.74% for principal amounts £25m from August 2007 to May 2008, £33m from May 2008 to August 2008 and £38m thereafter.

The second and third swaps were accounted for at fair value through the profit and loss account within the Group Income Statement on page 34 of these financial statements.

The second and third swaps are cancellable by the counterparty bank on any of the future quarter dates. If not called, the swap runs for 14 years to 11 August 2021. Whilst not qualifying for hedge accounting, the instruments significantly reduce and stabilise the Group's cash interest costs and short term interest rates remain above the swap level. The revaluation profit or loss on this contract, should it not be cancelled by the period end, is taken through the Group Income Statement. The swaps were not cancelled by the Bank during the period under review nor in the period to the date of signing of this report.

Principal Risks and Uncertainties

The principal risks and uncertainties of the Group are summarised below. The Board has reviewed and agreed policies for managing each of the risks:

(i) *Interest Rate risk*

The Group finances its operations through called up share capital, retained profits and bank borrowings. The Group borrows monies on a variable rate basis from its banks and enters into interest rate swaps and other instruments to mitigate its exposure to interest rate risk. At 31 December 2007, 90% of the Group's facilities were at fixed rates after taking account of interest rate swaps (see note 17 of the financial statements). All of the Group's financial instruments are in sterling.

Group Report of the Directors (continued)

(ii) Liquidity Risk

The Board approves an annual plan which sets out the Group's expected financing requirements for the following twelve months. At 31 December 2007, the maturity analysis of the Group's facilities was as follows:

	<i>Amount</i>	<i>Maturity</i>
<i>Bank borrowings</i>	<i>£</i>	
Long term	190m	2013
Short term	10m	364 days
	<u>200m</u>	

As at 31 December 2007, there was a total of £159.2m drawn under the long term bank facilities. In March 2008 the Group entered into an additional secured debt facility of £50m with Abbey National Treasury Services plc.

The Group's objective is to maintain a balance between continuity of funding and flexibility in its use of bank loans. The Group's policy is to have a majority of borrowings maturing in more than twelve months.

(iii) Borrowings, security, gearing and covenants

The Banks' borrowings are secured by fixed and floating charges over the properties owned by the Group.

- *Gearing*

The maximum gearing currently available to the Group permitted under the Articles of Association is 75% of gross assets. As at 31 December 2007, gearing was 54% of gross assets and was a maximum of 60% during the period.

- *Interest cover*

The Group's banking facilities have covenants that require the Group to maintain an interest cover ratio (rents/interest charge) of 1.3/1. The ratio was 1.8 at 31 December 2007 and is regularly monitored.

For the purposes of the UK-REIT legislation, the Group is required to satisfy a separate interest cover ratio (exempt profits/finance costs) of 1.25/1. For the profit for the period ended 31 December 2007 the cover was 1.34/1.

(iv) Property risks

The leases entered into by the Group's tenants are predominantly on terms such that the tenant is responsible for fully repairing and insuring the buildings, but the Group regularly monitors its exposure to the risk of deterioration of the properties.

(v) Industry specific risks

The Directors consider these to include the following:

- Availability of suitable property on favourable terms and conditions
- Uncertainty over valuations and possible downturns in the primary care market

Group Report of the Directors (continued)

(vi) *Specific risks relating to the Group*

The Directors consider these to include the following:

- Loss of UK-REIT status. The Group cannot guarantee continued compliance with all of the UK-REIT conditions. There is a risk that the UK-REIT regime may cease to apply in some circumstances and the Group could lose its status by the action of third parties. The ability of the Group to pay property income distributions (PIDs) and/or non PIDs on the Ordinary Shares is dependent on the availability of distributable reserves and upon receipt by it of dividends and other distributable reserves from its subsidiaries
- Inability to control the Government's primary care initiative and policies
- Retention of the Joint Managers. The Group has no employees and is highly dependent on its Directors and the Joint Managers and may be adversely affected, at least in the short term, if their services or the respective services of any of their key employees cease to be available to the Group

Going concern

Despite the difficulties that have been experienced in some sectors of the financial markets, the Group has surplus committed facilities that presently mature in 2013. Having reviewed the Group's current position, facilities and cash flow projections, the Directors believe the Group has adequate resources to continue with current operations and its selective policy of acquiring appropriate properties for the foreseeable future. Furthermore, should the Group ever decide to stop its investment programme, the Group would be cash flow positive at the operational level. Consequently, the Directors have continued to apply the 'Going Concern' basis in preparing these financial statements.

Directors

The Directors in office at 31 December 2007 are listed on page 14. Biographies for all Directors in office are also included on page 14. During the eighteen months ended 31 December 2007, Mr Sandford resigned as a Director on 27 July 2006 and Mr A R Jones was appointed with effect from 1 May 2007.

In accordance with provision A.7.2 of the Combined Code Messrs Elliot, Gilbert and Hambro are subject to annual election and accordingly a resolution to re-elect them will be put to the Annual General Meeting and is included in the Notice of Annual General Meeting and letter to shareholders enclosed with this Report.

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 this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to fulfil their functions responsibly. The other members of the Board have evaluated the performance of the Chairman and recommend his re-election.

Details of Directors' remuneration is given in the Directors' Remuneration Report on pages 30 and 31 and in note 3 to the financial statements. Save as disclosed, no Director has any interest in any contract or arrangement with the Group. The Articles of Association contain provisions for the appointment and re-election of Directors.

Group Report of the Directors (continued)

Directors' Interests

The interests (all of which are beneficial unless otherwise stated) notifiable under the Disclosure and Transparency Rule 3.1.2R of the Directors of the Company in office at 31 December 2007 and their connected persons (if appropriate) are as follows:

	31 December 2007	30 June 2006
	Ordinary Shares of 50p	Or date of appointment (if later) Ordinary Shares of 50p
G A Elliot	5,384	5,000
M J Gilbert	–	–
W J C Hemmings (alternate to M J Gilbert)	1,945	1,422
J D Hambro	21,758	20,000
J D Hambro (non beneficial)	280,000	
H A Hyman	42,153	38,218
H A Hyman (non beneficial)	2,131,000	990,700
I P Rutter	–	–
A R Jones	4,748	–

Save as disclosed below there are no changes to the interests described above as at the date of this report. As at the date of this report, Mr Hyman's beneficial interest was 49,928 Ordinary Shares and that of Mr Hemmings was 2,044 Ordinary Shares. Mr Gilbert is the Chief Executive of Aberdeen Asset Management PLC and clients of Aberdeen Asset Managers Limited are interested in 1,553,211 Ordinary Shares (4.62%) of voting rights. No Director is interested in any options to acquire Ordinary Shares in the issued share capital of the Company.

Employees

The Company has no employees, has 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, purported redundancy or otherwise) that occur because of a takeover bid.

Interests in voting rights

The following interests in voting rights have been notified to the Group pursuant to the Disclosure and Transparency Rule 5.

	Voting rights	%
Nexus Group Holdings Limited (connected to H A Hyman)	2,131,000	6.34
Legal & General Group Plc	1,729,527	5.14
AXA S.A.	1,646,570	4.90
Aberdeen Asset Managers Limited (connected to M J Gilbert)	1,553,211	4.62
Newton Investment Management Limited	1,337,698	3.98
Montanaro Fund Managers	1,069,186	3.18
UBS Global Asset Management Life Limited	1,048,644	3.12

Save as disclosed under the Disclosure and Transparency Rules the Group is not aware of any restrictions on voting rights including limits on 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 any person other than the holder of the securities.

Group Report of the Directors (continued)

Purchase of Own Shares

At the Annual General Meeting, held on 15 November 2007, the Shareholders' authority for the company to purchase up to 10% of its ordinary shares pursuant to section 162 Companies Act 1985 was renewed. This authority was not used during the period. The Board intends to seek the approval of shareholders to renew the authority at this year's Annual General Meeting. Any ordinary shares so purchased will be cancelled. The Companies Act permits a company to purchase its own shares provided it is authorised by its Articles of Association.

Facility Agreements

The Group finances its operations through a combination of equity and debt albeit that the maximum ratio between them is fixed by the Group's loan facilities. The Group currently has the following facilities available; (i) The Royal Bank of Scotland plc revolving advances facility of £10m; (ii) The Royal Bank of Scotland plc long term loan facility amounting to £140m (the "RBS facility"); (iii) an Allied Irish Banks, p.l.c. multi-currency revolving loan facility of £50m (the "AIB facility"); and (iv) Abbey National Treasury Services Plc facility of £50m (the "Abbey facility"). The Company is currently not permitted under the Articles or under its bank facilities to allow its loan to value ratio to exceed 75%. The Company has entered into an Intercreditor Agreement with the lenders.

Interest is payable at a rate of LIBOR plus the lender's mandatory costs rate plus the margin. The RBS facility is repayable on 31 January 2013, or, if earlier, upon the sale of all the properties purchased by the Company. The RBS facility is secured by (i) fixed and floating charges over the properties and the Company's assets and undertaking, (ii) Group cross guarantees, (iii) legal assignment of the rental income by way of security, and (iv) first legal charge over any account opened with RBS.

In the AIB facility, the interest is payable on individual advances at a rate of LIBOR plus the lender's mandatory costs rate plus a margin which varies according to the level of interest cover over borrowing costs. The termination date of the facility is 31 January 2013. The AIB facility has been secured by the execution of various security documents in favour of AIB, including the grant of fixed and floating charges, legal charges over the properties and Group cross guarantees.

In the Abbey facility, the interest is payable at the rate of the aggregate of the margin, LIBOR and the lender's mandatory costs, if any. The termination date of the facility is 31 January 2013. The Abbey facility is secured by Group cross guarantees from each property-owning Group company and fixed and floating charges from each Guarantor company.

The facility agreements contain change of control clauses and on a change of control the Banks may give notice that the facilities are repayable with accrued interest.

Issue of Shares

On 21 September 2006, the Joint Managers exercised their options to acquire 1.6m Ordinary Shares of 50 pence each at a price of 171p per Ordinary Share pursuant to the Management Option Agreement dated 17 September 2003. The terms of the issue of shares arising on the exercise of management options were approved by the Shareholders at the Extraordinary General Meeting held on 30 May 2003. The exercise price was equivalent to the average middle market quotation of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange PLC for the five business days immediately preceding the date of the Extraordinary General Meeting ("EGM"). The market price of an Ordinary Share on the date the terms were fixed on 30 May 2003 was 170.46p.

On 11 April 2007, 9,309,376 Ordinary Shares of 50 pence each were issued at a price of 430p per Ordinary Share, arising in respect of the Placing and Open Offer of one new Ordinary Share for every 13 existing Ordinary Shares conditional upon approval by the Shareholders at the EGM held on 11 April 2007. The market price of an Ordinary Share on the date the terms were fixed, being 11 April 2007, was 444.5p.

Group Report of the Directors (continued)

The Articles of Association contain the powers of the Directors to purchase the Company's Shares, allot Ordinary Shares and disapply pre-emption rights subject to Company law and Shareholders' authority.

Subject to the conditions and restrictions contained in the Articles of Association, any member may transfer all or any of his shares by instrument of transfer. The Company has one class of shares in issue.

As at 31 December 2007, in accordance with the Financial Services Authority's Disclosure and Transparency Rules, the Company has 33,587,094 Ordinary Shares of 50p each in issue, each Ordinary Share carrying the right to one vote. The Company does not hold any Treasury shares. The above figure of 33,587,094 Ordinary Shares may be used by Shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the share capital of the Company under the Financial Services Authority's Disclosure and Transparency Rules.

Related party transactions

Under the Management Agreement between the Company, Nexus Management Services Limited (novated to Nexus PHP Management Limited ("Nexus") on 14 February 2005) and J O Hambro Capital Management Limited ("JOHCML") dated 14 March 1996 as revised and amended on 17 July 2000 and as amended by a deed of variation dated 23 November 2006 (the "Management Agreement"), the Company appointed:

- Nexus for the purpose of identifying and selecting properties and negotiating and finalising the purchase and finance terms in relation thereto and also to monitor the properties; and
- JOHCML to provide certain administrative and accounting services including the appointment as Company Secretary

(collectively the "Joint Managers").

In addition, Nexus provides the services of the Managing Director of the Company (such person to be approved by the Company and to spend at least 10 full working days per calendar month on the business of the Company). The Management Agreement provides that Nexus and JOHCML each have the continuing right to appoint and remove one person as a Director of the Company and to receive Directors' fees per annum (plus VAT) in respect of the services of such Director as amended from time to time.

The Joint Managers have undertaken to give the Company the right of first refusal on any purchase or leasing transaction in the primary health sector, which is offered to either as principal. The Management Agreement is terminable by not less than two years' written notice (other than in circumstances of default). Nexus and JOHCML are paid a monthly fee (exclusive of VAT) equal to 0.55% per annum (less £5,000) and 0.45% (plus £5,000) respectively of the first £50m of the gross assets (and then at 0.4125% and 0.3375% respectively) of the gross assets in excess of £50m of the Company subject to a minimum payment of £120,000 per annum, the first £100,000 of which in each year is paid to Nexus. In addition, the Joint Managers are entitled to 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" (such Total Return being derived from the audited accounts for the financial period ending on the accounting reference date of the Company in the year immediately preceding the proposed date of payment). Further details of the Incentive Fee are given below.

The agreement contains no provisions to amend, alter or terminate the agreement upon a change of control of the Group following a takeover bid.

Mr Hyman is a director of Nexus and Mr Hambro a director of JOHCML. Messrs Hyman and Hambro are therefore deemed to have an interest in the Management Agreement.

Group Report of the Directors (continued)

Incentive Fee

On 16 November 2006, the Shareholders approved the amendments to the Management Agreement whereby the Joint Managers are entitled to a Performance Incentive Fee of 15% of any performance in excess of 8% per annum increase in the Company's "Total Return" as derived from the audited financial statements for the respective financial period.

Following the approval of these amendments by Shareholders, a deed of variation to the Management Agreement dated 23 November 2006 (the "Deed") was made between the Company, Nexus and JOHCML whereby the parties acknowledged that the management options granted to the Joint Managers were exercised in full on 21 September 2006 and accordingly, that the management options agreement had expired. The Deed also provided that the Joint Managers are entitled to the Performance Incentive Fee as detailed above in respect of the accounting reference period of the Company immediately preceding the proposed date of payment. In the event the Total Return is less than 8%, any deficit in the Total Return has to be made up in subsequent years before any Performance Incentive Fee is payable.

The Total Return is determined by calculating the change in the net asset value per Ordinary Share, on a fully diluted basis, after adjustment for any increase or reduction in the issued share capital of the Company and adding back gross dividends paid per Ordinary Share. The Management Agreement amendments approved by Shareholders in November 2006 established that the Incentive Fee is payable annually and is based on the previous financial year's audited accounts. Subsequently, the Company converted to a UK-REIT and changed its accounting reference date from 30 June to 31 December. This required extending its current accounting period to eighteen months and the production of two interim reports during this period. In order to make the first payment in line with the schedule approved by Shareholders and to be based on net asset values as at 30 June 2007, the Company used the two unaudited Interim Reports to calculate the Incentive Fee (six months to 30 June 2007: £1.84m; six months to 31 December 2007: nil). Thereafter the Incentive Fee will be calculated using the annual audited accounts. Further details are given on page 49 in note 3 to the financial statements.

With the exception of the matters referred to above, during the period no Director was materially interested in any contract of significance (as defined by the UK Listing Authority Rules) entered into by the Group.

Creditor Payment Policy

It is the Group's policy to settle suppliers' accounts in accordance with their individual terms of business. As at 31 December 2007, the Company had £nil of trade creditors representing nil creditor days (2006: £nil and nil days).

Donations

The Group does not make any political or charitable donations.

Annual General Meeting

The Annual General Meeting of the Company is convened on 17 June 2008 at 2.30 pm in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. The Notice of Annual General Meeting and proxy card are contained in the Circular enclosed with this Report for the eighteen months ended 31 December 2007.

The Articles of Association may be amended by special resolution of the Shareholders at a general meeting.

Share Service

The Company has made arrangements for a share service to be made available to facilitate investors' purchase of shares in the Company. It is operated by Capita IRG Trustees Limited and is designed to allow lump sum and regular savings to facilitate the purchase of the Company's shares. Further details are given in the Shareholder Information on page 96 of this Report.

Group Report of the Directors (continued)

Auditors

A resolution to reappoint Ernst & Young LLP and to authorise their remuneration as the Group's Auditors will be proposed at the forthcoming Annual General Meeting.

Statement as to disclosure of information to the auditors

So far as the Directors in office at the date of the signing of this Directors' Report are aware, there is no relevant information of which the auditors are unaware and each Director has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

For and on behalf of the Board of Primary Health Properties PLC

By Order of the Board

J O Hambro Capital Management Limited

Company Secretary

9 April 2008

Registered in England No: 3033634

Registered Office:

Ground Floor

Ryder Court

14 Ryder Street

London

SW1Y 6QB

Responsibility Statement required by Disclosure and Transparency Rule (DTR) 4.1.12.

- (i) To the best of our knowledge and belief the financial statements for the eighteen months ended 31 December 2007, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, profit of the issuer and the undertaking included in the consolidated figures taken as a whole; and
- (ii) the management report includes a fair review of the development and performance of the business and position of the issuer and its undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board of Primary Health Properties PLC

G A Elliot

Chairman

9 April 2008

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and Consolidated Financial Statements

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') adopted by the European Union.

The Directors are required to prepare financial statements for each financial period that present fairly the financial position of the Group and the financial performance and cashflows of the Group for that period. In preparing those financial statements, the Directors are required:

- to select suitable accounting policies in accordance with IAS8 and then apply them consistently;
- to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- to provide additional disclosure when compliance with the specific requirements in IFRS 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
- to state that the company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 as amended and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Corporate Governance

The Combined Code Principles of Good Governance and Code of Best Practice (the Code).

The UK Listing Authority Listing Rules require all listed companies to disclose how they have applied the principles and complied with the provisions of the Code. The Group is committed to high standards of corporate governance and is accountable to its Shareholders for the governance of its affairs. This statement describes how the Group has applied the principles throughout the period under review. In accordance with the concept of “comply or explain”, any areas of non-compliance are explained below.

The Board

The names and biographies of the Directors are given on page 14.

With the exception of Alun Jones, who was appointed on 1 May 2007, all Directors served throughout the period 1 July 2006 to 31 December 2007. The Board consists of six Directors, two of whom meet the independence criteria of the Code, a Chairman, a Managing Director and two other non-executive Directors. Graeme Elliot chairs the Company’s Board. His current significant other appointments are as a director of Ferbico Unlimited and AMH Investments Limited. The Code sets out that the Chairman must, on appointment, meet the independence criteria set out in Code provision A.3.1 but thereafter the test of independence is not appropriate in relation to the Chairman. Graeme Elliot met the independence criteria as set out in the Code provision A.3.1 at the time of his appointment and the Board does not consider that his outside appointments detract from his commitment as Chairman of the Group. With the Company Secretary, the Chairman ensures that the Board is kept properly informed, is consulted on all matters reserved to it and that any decisions are made in a timely manner. The Chairman chairs the Board, leads the non-executive Directors and ensures their engagement and contribution. The Chairman also reviews the individual performance of each of the non-executive Directors. The Chairman and Managing Director roles are separate.

Pursuant to the Management Agreement dated 14 March 1996 (as amended from time to time), Harry Hyman is designated as the Company’s Managing Director. He is also Managing Director of one of the Joint Managers – Nexus PHP Management Limited. The Managing Director and the Joint Managers carry on the day-to-day business of the Group in line with the Board’s delegated authority and the Management Agreement.

Although all of the Board are considered to be independent in character and judgement, the Independent Directors meeting the independence criteria set out in the Code are Alun Jones and Ian Rutter. The Directors’ biographies demonstrate a breadth of investment, financial, commercial and professional experience. The Board has reviewed its composition as a whole and the retention on the Board of those Directors with more than nine years’ service and consider that, due to the Directors’ personal experience and skills, all continue to make a useful contribution and should remain on the Board. The Board also considered whether it was appropriate for one of these Directors to continue to appoint an alternate director and agreed that it was.

The Board has a rigorous and transparent procedure for Board appointments considering the skill set required to ensure that the membership and composition of the Board continue to be appropriate. The practical process of identifying through to selection of a suitable candidate may take some time. The Board discusses the orderly succession for appointments to the Board so as to maintain an appropriate balance of skills and experience on the Board at least annually, if a vacancy arises or in order to comply with certain provisions of the Code, such as during the period for the search for a Director with recent and relevant financial experience to satisfy Code Provision C.3.1. A list of suitable candidates was supplied by external recruitment consultants and following an interview and selection process, Alun Jones was appointed to the Board on 1 May 2007 and subsequently on 15 November 2007 as Chairman of the Audit Committee having served for six months as a member of the Audit Committee. Mr Jones is a Chartered Accountant and recently retired from PricewaterhouseCoopers LLP, where he had been a partner since 1981. A tailored induction programme is provided for Non-Executive Directors on appointment, co-ordinated by the Company Secretary, following guidelines issued by the Institute of Chartered Secretaries and Administrators.

Corporate Governance (continued)

The Board considered the need to appoint a Senior Independent Director as required by the Code provision A.3.3 and accordingly appointed Alun Jones to fulfill the role as Senior Independent Director (“SID”) in November 2007. Prior to this, the Board considered that all of the non-executive Directors were independent, notwithstanding that not all met the independence criteria, and as a result did not appoint a SID.

All members of the Board participate in discussing strategy, performance, financial and risk management and Board Meetings are structured to facilitate open debate. All Directors have access to the advice and services of the Company Secretary, J O Hambro Capital Management Limited, which is responsible for ensuring that the Board procedures are complied with and advising the Board on governance matters. The Board has resolved that Directors may seek independent professional advice at the Company’s expense in the furtherance of their duties as Directors. No Director made use of this facility during the year. Although Directors have no service contracts, letters of appointment are in place for the non-executive Directors providing for termination on not less than three months’ written notice.

The terms of the Management Agreement, described in the Group Report of the Directors on pages 21 and 22, also provides for the appointment of the Managing Director and James Hambro as a Director. In accordance with the Articles of Association any Director who has been appointed by the Board, either to fill a casual vacancy or as an additional Director, holds office only until the following Annual General Meeting when a resolution in respect of their reappointment is put to the Annual General Meeting. Subsequently one third of the Directors retire and offer themselves for re-election at the Annual General Meeting. Mr Jones was appointed by the Board on 1 May 2007 and was re-elected by shareholders at the Annual General Meeting held on 15 November 2007. In accordance with Code provision A.7.2, the Chairman, Martin Gilbert and James Hambro, who have both served for a period longer than 9 years, are subject to annual election. Accordingly, resolutions are included in the Notice of the Annual General Meeting posted with this Report.

Role and Operation of the Board

The Board has four scheduled Board meetings per year and meets in between as may be necessary. The principal task of the Board is to formulate strategy and to monitor and control operating and financial performance in pursuit of the objectives of the Company. It has a schedule of matters reserved for the Board’s decision which identifies those matters requiring Board approval. These include the approval of strategy, acquisitions, the budget, significant transactions, matters relating to the Company’s share capital, approval of financial statements, payment of dividends and banking facilities. During the period the Board approved amongst other matters, the REIT Circular to Shareholders, the acquisition of PHIP CHH Limited, the placing and open offer, the interim dividends and the interim and final financial statements.

Seven Board meetings were held during the period ended 31 December 2007.

	No. of Board Meetings – (7) (or date of appointment if later)	No. of Audit Committees – (3) (or date of appointment if later)
G A Elliot	7	3
H A Hyman	7	N/A
J D Hambro	6	N/A
M J Gilbert (alternate W J C Hemmings)	6	2
I P Rutter	7	3
A R Jones (appointed 1 May 2007)	3	1

Directors not on the Audit Committee may be invited to attend the Audit Committee.

Corporate Governance (continued)

Board Evaluation

A questionnaire on Board performance was circulated to all Directors, completed and the findings summarized by the Company Secretary and discussed by the Board. The Chairman discussed Board evaluation with each Director and with the Board as a whole. The results of these discussions were then reviewed by the Board. The non-executive Directors evaluated the performance of the Chairman, As part of the Board evaluation process, the work of each Committee has been evaluated. Continuing Board appointment is contingent on satisfactory performance and re-election by the Shareholders at Annual General Meetings. Each Director discussed his performance with the Chairman.

Committees

The Board is assisted by its Committees. J O Hambro Capital Management Limited is the Secretary to each of these Committees. Each Committee has its own terms of reference and these are available on the web site.

Audit Committee

The Board's Audit Committee comprises the two Independent Directors.

Standing Committee

The Board has delegated to a Standing Committee the authority and set procedures to deal with the implementation of Board decisions, routine business and to deal with any urgent items arising between scheduled Board Meetings not requiring debate. The Standing Committee comprises the Chairman, Managing Director and Mr Hambro. The Chairman with the Joint Managers regularly discusses Company matters in between scheduled Board Meetings.

Remuneration Committee

The Board's Remuneration Committee comprising the two Independent Directors determines appropriate levels of remuneration for Directors. The Remuneration Committee currently reviews Directors' fees for increases at three yearly intervals.

Nomination Committee

The Board acts as the Nominations Committee, meets as and when deemed necessary to consider any requirement for new Directors and to discharge its role in nominating any new Directors to the Board and to consider succession planning.

Management Engagement Committee

The Management Engagement Committee comprising the Independent Directors considers the management contract and the engagement of the Joint Managers.

The Audit Committee

The Board is supported by an Audit Committee which now comprises the Independent Non-Executive Directors although other Directors may be invited to attend. The Audit Committee's role is to ensure the probity of the financial statements and the robustness of the financial, operational, compliance controls and systems of risk management relied on by the Group. The Audit Committee is responsible for the review of the accounting policies followed, the annual report, the interim report, the nature and scope of the external audit, their findings, the terms of appointment of the Auditors and their remuneration, the independence of the Auditors and the provision of any non-audit services. It also meets with representatives of the Joint Managers and receives reports on the quality and effectiveness of the accounting records and the management information maintained on behalf of the Group.

Corporate Governance (continued)

The Audit Committee met representatives of the Joint Managers three times during the period, who reported on the proper conduct of business in accordance with the regulatory environment in which both the Group and the Joint Managers operate including compliance with the REIT legislation. The Company's Auditors also attended the Committee at its request twice in the period and commented on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit. The Audit Committee is authorised to take such independent professional advice (including legal advice – no use of this facility was made during the year) and to secure the attendance of any external advisers with relevant experience it considers necessary. On 1 May 2007, Alun Jones was appointed as a Director and is the member of the Committee with the relevant and recent financial experience required to carry out its duties. (Code provision C.3.1). Prior to his appointment, the members of the Audit Committee were deemed by the Board to collectively have the attributes and core competencies necessary to discharge the Committee's responsibilities. Since November 2007 the Audit Committee has been chaired by Alun Jones. Prior to this appointment, the Chairman also chaired the Audit Committee.

The Audit Committee is satisfied that the Auditors are independent. The Audit Committee considered the independence report provided by Ernst & Young LLP in respect of the 18 months to 31 December 2007 and is satisfied that the Auditor's objectivity and independence is not impaired by the performance by the Auditors of certain non-audit services. The Audit Committee's terms of reference includes the adoption and review of a policy on the engagement of the Auditors to supply non-audit services. The non-audit services provided by the Auditors during the period were REIT advisory, transaction advisory and routine tax compliance work.

The Audit Committee annually considers the need for an Internal Audit function. The Audit Committee continues to recommend to the Board that it is not appropriate for the Group to have an Internal Audit function as it has no employees and relies on the services of its Directors and the third party service providers, the Joint Managers.

Management Engagement Committee

The Management Engagement Committee, comprising the two Independent non-executive Directors, is responsible for the regular review of the terms of the management contract with the Joint Managers and their engagement. The Committee reviews the terms, including fees and other remuneration payable to Nexus PHP Management Limited and J O Hambro Capital Management Limited set out on pages 21 and 22 of the Report for the eighteen month period and in note 3 on page 49 of the financial statements, on a regular basis. Details of the fees paid to the Joint Managers are set out in the Directors' Report on pages 21 and 22. During the period, the Committee reviewed the circular posted to Shareholders relating to Proposals for amendment to the terms of the Management Agreement and Notice Convening an Extraordinary General Meeting held on 16 November 2006 and the Deed of Variation.

Remuneration Committee

Prior to November 2007, the Board as a whole agreed Directors' remuneration, which did not comply with Code provision B.2.1, but which the Board considered was appropriate to the Company at the time. In November 2007, Alun Jones and Ian Rutter were appointed to the Remuneration Committee with Alun Jones as Chairman. The current fees of £15,000 for Directors and £20,000 for the Chairman were agreed in April 2005 following the three yearly review cycle and are disclosed in the Directors' Remuneration Report on pages 30 and 31. 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 non-executive director appointments since this information is not deemed relevant and the Remuneration Committee is satisfied that the Company received appropriate time commitment from the Managing Director.

Corporate Governance (continued)

Shareholder Relations

The Company, through the Joint Managers, has regular contact with its institutional Shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private Shareholders and encourages them to attend and participate. The Annual General Meeting is attended by the Chairman and will also be attended by the Chairman of the Audit and Remuneration Committees, SID and all other Directors. The Notice of the Annual General Meeting sets out the business of the meeting and is circulated in a separate circular with this Report. The special business is also explained fully in the Explanatory Notes with the Notice of the Annual General Meeting. Separate resolutions are proposed for each substantive issue at its Annual General Meeting and the Company complies with the provisions of the Code relating to disclosure of proxy votes and the separation of resolutions.

Accountability and Audit

The Board's responsibilities with regard to the financial statements are set out on page 24 and a statement on going concern is set out on page 18. The Independent Auditors' Report is on pages 32 and 33.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has reviewed the effectiveness of the system of internal control which has been in operation throughout the period and to the date of this Report. 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 any system can provide only reasonable and not absolute assurance against material misstatement or loss.

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 financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and the Joint Managers in all aspects of the day-to-day operations. The on-going risk assessment process is regularly reviewed and is in accordance with Turnbull guidelines. It includes consideration of the scope and quality of the systems of internal control adopted by the Joint Managers and the identification of risks specific to the Group's operations and objectives which ensure regular communication of the results of monitoring by third parties 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.

Directors' Remuneration Report

Role and composition

Prior to November 2007, the Board as a whole fulfilled the function of the Remuneration Committee. In November 2007, a Remuneration Committee (the "Committee") was established comprising the two Independent Non-Executive Directors Alun Jones and Ian Rutter. Alun Jones was appointed its Chairman.

This Report has been prepared in accordance with the requirements of Company law and the Listing Rules. An ordinary resolution for the approval of this report will be put to the Members at the forthcoming Annual General Meeting.

Directors' emoluments

Directors' fees have been historically reviewed on a three yearly basis. Currently there is a set fee for each Director of £15,000 per annum and £20,000 for the Chairman. These fees were agreed in April 2005. No Director is involved in any decision regarding his own remuneration.

Prior to November 2007, the fees payable to Directors are agreed by the Board following the recommendation of the Committee and with the assistance of independent external advice on comparable organisations and appointments if required. Directors' fees are determined subject to the limits set out in the Company's Articles of Association.

The Remuneration Committee reviewed the existing fees in February 2008 and after informal consultation with the Chairman and comparison with other property investment trusts, the number of Board meetings and in recognition of additional committee responsibilities, recommended increases with effect from the year to 31 December 2008 subject to Shareholders' approval of the increase in the limit on aggregate Directors' fees per annum set out in the Articles of Association from £100,000 to £250,000. This limit has not been increased since the Company since 1996. The Remuneration Committee aims to seek and retain the right calibre of people and set fees consistent with the prevailing market conditions, other property vehicles and the various roles and commitments of the Directors for the Group.

Remuneration of Directors (audited)

	Eighteen months ended 31 December 2007 (or date of appointment if later)	Year ended 30 June 2006 (or date of appointment if later)
	£	£
G A Elliot (Chairman)	30,000	20,000
H A Hyman (Managing Director)	22,500	15,000
J D Hambro	22,500	15,000
M J Gilbert	22,500	15,000
I P Rutter	22,500	11,583
A R Jones (appointed 1 May 2007)	10,000	–
P C Pietroni (retired 15 November 2005)	–	7,500
A D Dalgliesh (resigned 3 February 2006)	–	8,917
P Sandford (resigned 27 July 2006)	3,750	15,000

The remuneration of Directors can also be found in note 3 of the financial statements on page 49.

Messrs. Hyman and Hambro are Directors of Nexus 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 Nexus PHP Management Services Limited ("Nexus"). Mr Hyman's family interests are the controlling shareholder of Nexus. The fees in respect of Mr Hambro's services are paid to J O Hambro Capital Management Limited ("JOHCML"). Mr Hambro is an indirect shareholder of JOHCML. Further details of the Management Agreement are given in the Directors' Report on pages 21 and 22.

Directors' Remuneration Report (continued)

The fee in respect of Martin Gilbert's services as a Director is paid to Aberdeen Asset Management plc. The fee in respect of Mr Dalgliesh's services as a Director was paid to Nexus.

No Directors receive any benefits in kind. No Directors receive any pensions. No Director received any share options during the period.

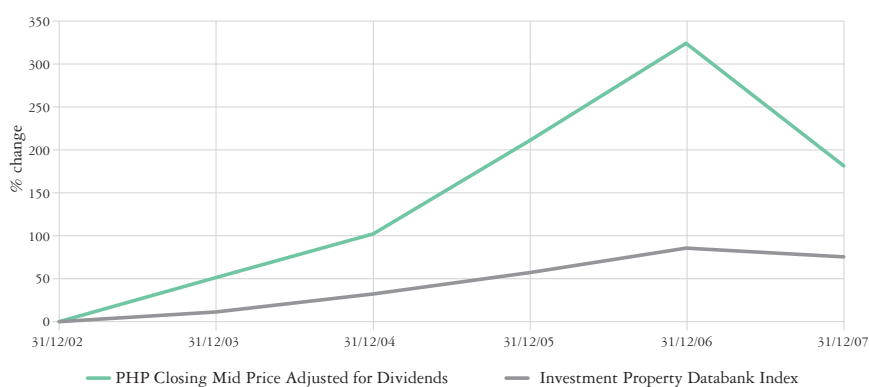
Service contracts

No Director has a service contract nor are they appointed for a specific term of office. The contracts for the services of Messrs Hyman and Hambro are with Nexus and JOHCML respectively pursuant to the Management Agreement. The Management Agreement provides for the appointment of the Managing Director of the Company (such person to be approved by the Company and to spend at least 10 full working days per calendar month on the business of the Company). The Management Agreement provides that Nexus and JOHCML each have the continuing right to appoint and remove one person as a Director of the Company.

There are letters of appointment in place for the four other Directors including the Chairman. These 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.

Company's performance

The following graph compares, over a five year period, the total shareholder return (as defined in paragraph 4, schedule 7A, Companies Act 1985) on the Company's Ordinary Shares with a leading property index used as a key performance indicator.



The Investment Property Databank ("IPD") UK Annual index was chosen by the Board in 2003 and the Board continues to consider it to be the most appropriate proxy for a broad equity market index to use. The index measures un-gearred total returns to direct property investments and in 2006 delivered 18.1%, falling only a percentage point below the 19.1% return in 2005.

The UK Annual Index remains the IPD flagship service in terms of the number of properties and length of historic coverage (26 years). At the end of 2006, (the latest information available) the 12,137 properties covered by the Annual Index were valued at £192 billion – equivalent to 49% of the UK investment market. The UK Annual index has tracked the three market sectors (namely office, retail and industrial) since 1971.

For the eighteen months ended 31 December 2007, the highest and lowest mid-market price of the Company's Ordinary Shares was 533.6p and 262.3p respectively.

This report was approved by the Board on 9 April 2008 and signed by A R Jones, Chairman of the Remuneration Committee.

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 period ended 31 December 2007 which comprise the Group Income Statement, Group Balance Sheet, Group Statement of Changes in Equity, Group Cashflow Statement and the related notes 1 to 29. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Primary Health Properties PLC for the period ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Group Report of the Directors is consistent with the financial statements. The information given in the Group Report of the Directors includes that specific information presented in the Chairman's Statement and the Managing Director's Report that is cross referenced from the Business Review section of the Group Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our Group audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Map showing the location of properties, Objective of the group, the Chairman's Statement, the Managing Director's Report, the Directors and Managers Profile, the Group Report of the Directors, the Corporate Governance report, the Directors' Remuneration Report, the Ten Year Summary of Key Performance Indicators, the Shareholder Information, the American Depositary Receipts (ADR) Programme information, and the Corporate Profile. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report

to the members of Primary Health Properties PLC (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion :

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Group Report of the Directors is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditor
London

Group Income Statement

for the eighteen month period ended 31 December 2007

	<i>Notes</i>	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
Rental income		21,301	10,850
Finance lease income		908	281
Rental and related income	2	22,209	11,131
Net valuation gain on property portfolio	9	4,857	14,997
Impairment loss	9	(3,750)	–
Net gain on disposal of property	9	44	401
Administrative expenses – exceptional goodwill impairment	23	(5,551)	–
Administrative expenses – exceptional UK-REIT conversion costs (explained in note 6)		(195)	–
Administrative expenses – other	3	(7,646)	(2,689)
Operating profit before financing costs	3	9,968	23,840
Finance income	4	2,178	258
Finance costs	5	(13,022)	(5,695)
Mark to market loss on derivatives	5	(2,808)	–
(Loss)/profit on ordinary activities before taxation		(3,684)	18,403
Current taxation	6	(100)	465
Conversion to UK-REIT charge	6	(5,157)	–
Deferred taxation	6	(3,880)	(2,931)
Deferred taxation release on conversion to UK-REIT	6	29,622	–
Taxation credit/(charge)		20,485	(2,466)
Profit for the period/year		16,801	15,937
Earnings per share – basic	7	59.4p	70.3p
– diluted	7	59.4p	67.7p
Adjusted earnings – basic	7	(1.8p)	17.1p
– diluted	7	(1.8p)	16.5p
Increase in net asset value per share since previous annual report – basic	25	54.9p	62.6p
– diluted	25	64.3p	58.5p
Total return per share – basic	26	76.7p	76.1p
– diluted	26	86.1p	72.0p
Dividends paid in the period/year per share	8	21.75p	12.75p

The above relates wholly to continuing operations.

Group Balance Sheet

as at 31 December 2007

	<i>Notes</i>	31 December 2007 £'000	30 June 2006 £'000
Non current assets			
Investment properties		282,495	199,569
Development properties		2,853	–
Development loans		182	1,712
	9	<u>285,530</u>	<u>201,281</u>
Net investment in finance leases	11	2,914	2,492
Derivative interest rate swaps	17	1,651	1,415
		<u>290,095</u>	<u>205,188</u>
Current assets			
Trade and other receivables	12	4,186	1,033
Net investment in finance leases	11	53	12
Cash and cash equivalents	13	3,862	3,973
		<u>8,101</u>	<u>5,018</u>
Total assets		<u>298,196</u>	<u>210,206</u>
Current liabilities			
Derivative interest rate swaps	17	(2,808)	(74)
Corporation tax payable	15	(29)	(181)
UK-REIT conversion charge payable	14	(1,208)	–
Deferred rental income	14	(3,660)	(2,466)
Trade and other payables	14	(3,576)	(2,604)
		<u>(11,281)</u>	<u>(5,325)</u>
Non current liabilities			
Term loan	16	(159,219)	(112,363)
Derivative interest rate swaps	17	(224)	–
Deferred taxation	6	–	(21,193)
UK-REIT conversion charge payable	14	(3,395)	–
		<u>(162,838)</u>	<u>(133,556)</u>
Total liabilities		<u>(174,119)</u>	<u>(138,881)</u>
Net assets		<u>124,077</u>	<u>71,325</u>

Group Balance Sheet (continued)

as at 31 December 2007

	<i>Notes</i>	31 December 2007 £'000	30 June 2006 £'000
Equity			
Share capital	18	16,794	11,339
Share premium	20	48,009	12,022
Capital reserve	21	1,618	1,618
Cash flow hedging reserve	22	1,427	939
Retained earnings	24	56,229	45,407
Total equity*		<u>124,077</u>	<u>71,325</u>
Net asset value per share – basic	25	369.42p	314.52p
– diluted	25	369.42p	305.06p
Adjusted net asset value per share** – basic	25	369.42p	407.97p
– diluted	25	369.42p	392.35p

These financial statements were approved by the Board of Directors on 9 April 2008 and signed on its behalf by:

G A Elliot
Chairman

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

** Adjusted to remove deferred tax (applicable to 30 June 2006 only).

Group Statement of Changes in Equity

for the eighteen month period ended 31 December 2007

	Share capital £'000	Share premium £'000	Capital reserve £'000	Cashflow hedging reserve £'000	Retained earnings £'0 00	Total £'000
30 June 2006	11,339	12,022	1,618	939	45,407	71,325
Profit for the period	–	–	–	–	16,801	16,801
Transfer to income statement on cash flow hedges	–	–	–	(1,231)	–	(1,231)
Income and expense recognised directly in equity:						
Gains on cash flow hedges taken to equity	–	–	–	1,317	–	1,317
Deferred tax on cash flow hedges	–	–	–	402	–	402
Total recognised income and expense for the period	–	–	–	488	16,801	17,289
Issue of shares (net of expenses)	5,455	35,987	–	–	–	41,442
Dividends paid:						
Final dividend for the year ended 30 June 2006 (6.75p)	–	–	–	–	(1,639)	(1,639)
First interim dividend for the period ended 31 December 2007 (7.5p)	–	–	–	–	(1,821)	(1,821)
Second interim dividend for the period ended 31 December 2007 (7.5p)	–	–	–	–	(2,519)	(2,519)
31 December 2007	16,794	48,009	1,618	1,427	56,229	124,077

Group Statement of Changes in Equity (continued)

for the eighteen month period ended 31 December 2007

	Share capital £'000	Share premium £'000	Capital reserve £'000	Cashflow hedging reserve £'000	Retained earnings £'000	Total £'000
1 July 2005	11,326	11,952	1,618	(1,292)	32,175	55,779
Profit for the year	–	–	–	–	15,937	15,937
Transfer from income statement on cash flow hedges	–	–	–	238	–	238
Income and expense recognised directly in equity:						
Gains on cash flow hedges taken to equity	–	–	–	2,949	–	2,949
Deferred tax on cash flow hedges taken to equity	–	–	–	(956)	–	(956)
Total recognised income and expense for the year	–	–	–	2,231	15,937	18,168
Issue of shares (net of expenses)	13	70	–	–	–	83
Share based payment adjustment	–	–	–	–	185	185
Dividends paid:						
Final dividend for the year ended 30 June 2005 (6.0p)	–	–	–	–	(1,359)	(1,359)
Interim dividend for the year ended 30 June 2006 (6.75p)	–	–	–	–	(1,531)	(1,531)
30 June 2006	11,339	12,022	1,618	939	45,407	71,325

Group Cashflow Statement

for the eighteen month period ended 31 December 2007

	Note	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
Operating activities			
(Loss)/profit before tax		(3,684)	18,403
Less: Finance income		(2,178)	(258)
Plus: Finance costs		13,022	5,695
Plus: Mark to market loss on derivatives		2,808	–
		<hr/>	<hr/>
Operating profit before financing costs and financing income		9,968	23,840
<i>Adjustments to reconcile Group operating profit to net cash flows from operating activities:</i>			
Less: Revaluation gains on property		(4,857)	(14,997)
Less: Gains on disposal of property	9	(44)	(401)
Plus: Impairment loss	9	3,750	–
Plus: Goodwill impairment		5,551	–
Plus: Share based payment expense		–	185
Increase in trade and other receivables		(1,177)	(54)
(Decrease)/increase in trade and other payables		(448)	212
		<hr/>	<hr/>
Cash generated from operations		12,743	8,785
UK-REIT conversion charge		(554)	–
Taxation paid		(272)	(34)
		<hr/>	<hr/>
Net cashflow from operating activities		11,917	8,751
Investing activities			
Receipts from disposal of investment properties		464	7,711
Payments to acquire investment properties		(48,972)	(25,770)
Development loans advanced		(2,671)	(2,612)
Interest received from developments		281	219
Bank interest received		83	47
Acquisition of Cathedral		(30,924)	–
Cash acquired on acquisition of Cathedral		174	–
		<hr/>	<hr/>
Net cashflow used in investing activities		(81,565)	(20,405)
Financing activities			
Term bank loan drawdowns		47,050	24,000
Placing and option exercise (net of expenses)		41,443	(4)
Interest paid		(12,977)	(6,678)
Equity dividends paid		(5,979)	(2,803)
		<hr/>	<hr/>
Net cashflow from financing activities		69,537	14,515
		<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents for the period/year		(111)	2,861
Cash and cash equivalents at start of period/year		3,973	1,112
		<hr/>	<hr/>
Cash and cash equivalents at end of period/year (note 13)		3,862	3,973
		<hr/>	<hr/>

Notes to the Financial Statements

1 Accounting policies

Basis of preparation and statement of compliance

The Group's financial statements for the period ended 31 December 2007 were approved by the Board of the Directors on 9 April 2008 and the Balance Sheets were signed on the Board's behalf by the Chairman, G A Elliot (see page 14). 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.

For the period ended 31 December 2007 the Group has prepared consolidated financial statements under 'International Financial Reporting Standards' ('IFRS') as adopted by the European Union as they apply to the financial statements of the Group for the period ended 31 December 2007 applied in accordance with the Companies Act 1985.

Convention

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

Segmental reporting

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

Change of accounting reference date

The Group changed its accounting reference date to 31 December. The current accounting reference period, which commenced on 1 July 2006, therefore comprises 18 months ended 31 December 2007.

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.

Investment properties

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

Gains or losses arising from changes in the fair value of investment properties are included in the Group Income Statement 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 Income Statement in the year of disposal.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Properties held for, or in the course of, development

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

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

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 Income Statement in the year in which it accrues.

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 of continuing operations are recognised in the Group Income Statement in those expense categories consistent with the function of the impaired asset.

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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. The following criteria must also be met before revenue is recognised.

Rental income

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

Interest income

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

Trade and other receivables

Trade receivables, which generally have a 30–90 day term, 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 with an original maturity of three months or less.

Trade and other payables

Trade payables, which generally have a term of 15–30 days, 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 are recognised as an expense when incurred.

Notes to the Financial Statements (continued)

1 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. The deferred tax liabilities as at 31 December 2006 of £30.0m are therefore released with £29.6m credited to the Group Income Statement and £0.4m to the cash flow hedging reserve.

On conversion to a UK-REIT, the Group is subject to a one off taxation charge based on the value of the properties as at the date of conversion, amounting to £5.1m. This amount is payable over four years.

Taxation

Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Group Income Statement 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.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes with the following exceptions:

- where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The basis of calculating deferred tax depends on whether the value is expected to be achieved through sale or use in the business. Since the Group's intention is to recover through use and ultimately to realise the value of the properties through sale, the deferred tax is calculated taking into account indexation relief.

Financial instruments

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains and losses on financial instruments held for trading are recognised in income.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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 income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

De-recognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

Derivative financial instruments

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its risks associated with exposure to interest rate fluctuations and the resulting variability in cashflows.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in the fair value of the derivatives that do not qualify for hedge accounting are taken to the Group Income Statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments is as follows:

For cashflow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Group Income Statement. Amounts taken to equity are transferred to the Group Income Statement when the hedged transaction affects the Group Income Statement, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

De-recognition of financial assets and liabilities (continued)

Derivative financial instruments (continued)

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the Group Income Statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Dividends payable to shareholders

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by Shareholders at the Annual General Meeting.

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

Leases – Group as a lessor

Assets leased out under operating leases are included within investment properties and 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. As payments fall due, finance income is recognised in the Group Income Statement 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.

The Group determines whether an arrangement is or contains a lease based on the substance of the arrangement. In making this determination the Group assesses whether fulfilment of the arrangements is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

Share based payments

Share based payments are measured at fair value at the date of grant with an equivalent amount charged over the vesting period to the Group Income Statement. The fair value is calculated using a derivative pricing model known as the Black-Scholes formula using assumptions deemed to be consistent with the price that one might expect the incentive to have if it were traded in the markets.

Equity settled transactions

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the Joint Managers becomes fully entitled to the award. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Share based payments (continued)

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and the best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Group Income Statement, with a corresponding entry in equity.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements, which have not been applied:

	Accounting periods commencing after (Effective date)
International Accounting Standards (IAS / IFRS)	
IFRS 2 Share based payment (revised January 2008)	1 January 2009
IFRS 8 Operating Segments	1 January 2009
IFRS 3 Business Combinations (revised January 2008)	1 July 2009
IAS 27 Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 1 Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23 Borrowing costs (revised March 2007)	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 The limit on a Defined Benefit asset, minimum funding requirements and their interaction	1 January 2008

The adoption of these standards and interpretations will have no material impact upon the Group's financial statements in the period of initial application. The Group will adopt the above on the relevant effective date.

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

Taxation

Judgement is required in determining the provision for the deferred tax liabilities. The actual tax effects of certain transactions relating to investment properties can be uncertain for a considerable period of time, requiring estimation of the related current and deferred tax provisions.

The judgement of deferred tax was applicable for the six months to 31 December 2006, as following conversion to UK-REIT on 1 January 2007, the Group is no longer subject to taxation on property profits (both income and gains) and therefore all deferred tax balances were released.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Significant accounting estimates and judgements (continued)

Fair value of investment properties

The market value of a property is deemed, by the independent property valuers, 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.

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 these properties, which are leased out on operating leases. In addition, the Group has entered into a number of finance lease arrangements where it has determined that it has transferred substantially all the risks and rewards incidental to ownership.

Share based payments

The Group has used judgement in determining the fair value of the share-based payments on the date of grant as an option-pricing model was used which required assumptions to be made regarding a number of highly complex and subjective variables.

2 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 business 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:

Eighteen months to 31 December 2007				Year ended 30 June 2006			
Less than one year £'000	1– 5 years £'000	More than 5 years £'000	Total £'000	Less than one year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000
16,897	72,810	635,684	725,391	12,222	62,237	593,265	667,724

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.

Notes to the Financial Statements (continued)

3 Group operating profit is stated after charging	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
Administration expenses – other		
Management fees (i)	3,167	1,505
Performance incentive fee (ii)	2,591	–
Directors' fees (iii)	134	108
Property management fees payable to Nexus PHP Management Limited	109	65
Bank facility non-utilisation fees	190	78
Bank charges and loan commitment fees	92	17
Auditors' remuneration for – audit services – Group and parent company	119	50
– audit services – subsidiary accounts	56	21
– taxation services	239	60
– IFRS advice	–	20
– transaction advisory services	185	–
– other services	58	–
Other professional fees	152	174
Property expenses in connection with vacant properties	2	4
Direct operating expenses arising from investment property that generated rental income	341	207
Other expenses	211	380
Administration expenses – other	7,646	2,689

(i) JOHCML, a wholly owned subsidiary of J O Hambro Capital Management Group Limited, and Nexus PHP Management Limited ('NPM'), a subsidiary of Nexus Structured Finance Limited, act as Joint Managers to the Company. Management fees (as per the management agreement) are 1% of the first £50m of the property assets of the Group and 0.75% thereafter, measured at the year end.

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

	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
J O Hambro Capital Management Limited ('JOHCML')	1,433	682
Nexus PHP Management Limited ('NPM')	1,734	823
	3,167	1,505

JOHCML is also Company Secretary.

As at 31 December 2007, £190,000 of management fees payable to JOHCML were outstanding (2006: £60,000), and £39,000 was payable to NPM (2006: £3,000).

Notes to the Financial Statements (continued)

3 Group operating profit is stated after charging (continued)

(ii) Performance incentive scheme

Following the expiry of the management share option agreement, on 16 November 2006, Shareholders approved the amendments to the Management Agreement whereby the Joint Managers are entitled to a performance incentive fee of 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" as derived from the audited financial statements for the respective financial period.

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

The performance incentive fee was initially calculated on an annual basis ending 30 June. However, following the Group's conversion to a UK-REIT and change in its accounting reference date to 31 December, it has been necessary to calculate the fee based on six-monthly steps, using interim accounts. From 1 January 2008, the fee will be calculated on an annual basis, using the audited accounts. Included in Administration Expenses within the Group Income Statement for the twelve months to 30 June 2007 is a performance incentive fee expense of £2,591,000 (six months to 30 June 2007: £1,839,000, six months to 31 December 2006: £752,000). There is no performance incentive fee payable for the six months ended 31 December 2007.

(iii) Remuneration of Directors:

	Eighteen months ended 31 December 2007 £	Year ended 30 June 2006 £
Mr G A Elliot (Chairman)	30,000	20,000
Mr H A Hyman (Managing Director)	22,500	15,000
Mr J D Hambro	22,500	15,000
Mr M J Gilbert	22,500	15,000
Professor P C Pietroni (retired 15 November 2005)	–	7,500
Mr P Sandford (resigned 27 July 2006)	3,750	15,000
Mr A D S Dalgliesh (resigned 3 February 2006)	–	8,917
Dr I P Rutter (appointed 22 September 2005)	22,500	11,583
Mr A R Jones (appointed 1 May 2007)	10,000	–
Total fees	133,750	108,000

There were no employee costs, other than for the Directors listed above.

The Directors' fees for Mr H A Hyman and Mr A Dalgliesh were paid to NPM. Mr Hyman's family interests are the controlling shareholder of NPM. The Company also paid to NPM £109,000 (2006: £65,000) property management fees shown on page 48.

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

The Directors' fees for Mr M J Gilbert are paid to Aberdeen Asset Management PLC.

Notes to the Financial Statements (continued)

4	Finance income	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
	Bank interest	80	50
	Development loan interest	867	208
	Bank swap interest	1,231	–
		<u>2,178</u>	<u>258</u>
5	Finance costs	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
	i) Interest paid		
	Bank term loan interest paid	13,018	5,452
	Other interest paid	4	5
	Bank swap interest	–	238
		<u>13,022</u>	<u>5,695</u>
	ii) Derivatives		
	Mark to market loss on derivatives	<u>2,808</u>	<u>–</u>

The loss on mark-to-market derivatives has arisen from the two interest rate swaps for which hedge accounting does not apply. Any gain or loss incurred in stating them at fair value is taken directly to the Group Income Statement.

Notes to the Financial Statements (continued)

6 Taxation	Eighteen months ended	Year ended
(a) Tax (credit)/charge in the Group Income Statement	31 December	30 June
	2007	2006
	£'000	£'000
The tax (credit)/charge is made up as follows:		
<i>Current tax</i>		
UK corporation tax	27	181
Adjustments in respect of prior period/year	73	(646)
	<u>100</u>	<u>(465)</u>
Charge on conversion to UK-REIT status†	5,157	–
	<u>5,257</u>	<u>(465)</u>
<i>Deferred tax</i>		
Deferred tax charge for the 6 months to 31 December 2006/year	3,880	2,931
Deferred tax release on conversion to UK-REIT status†	(29,622)	–
	<u>(25,742)</u>	<u>2,931</u>
Tax (credit)/charge in the Group Income Statement	<u>(20,485)</u>	<u>2,466</u>
Tax charge in equity		
<i>Deferred tax</i>		
Opening balance at beginning of period/year	402	–
Net charge on revaluation of cashflow hedge	–	402
Deferred tax release on conversion to UK-REIT status†	(402)	–
Tax charge in equity	<u>–</u>	<u>402</u>
Split as follows:		
Opening balance at beginning of period/year	402	–
Opening adjustment upon adoption of IAS32 and IAS39	–	(554)
Movement in the period/year	(402)	956
	<u>–</u>	<u>402</u>

† Conversion to a UK-REIT means that the Group is no longer subject to UK corporation tax. This enabled the Group to release its deferred tax liabilities at the expense of suffering a conversion charge (£5.1m) plus additional legal costs (£0.2m).

Notes to the Financial Statements (continued)

6 Taxation (continued)

(b) Factors affecting tax charge for the period

The tax assessed for the 6 months to 31 December 2006 when the Company became a UK-REIT is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
(Loss)/profit before taxation	(3,684)	18,403
(Loss)/profit multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	(1,105)	5,521
Effects of:		
Non deductible expenses	–	57
Adjustment in respect of current tax of prior year	73	(646)
Adjustment in respect of deferred tax of prior year	–	(1,009)
Revaluation gains/(losses) on disposal	5,712	(1,323)
Other differences	27	(10)
Losses utilised	–	(124)
Charge on conversion to UK-REIT status	5,157	–
Exempt REIT income/expenses	(727)	–
Release of deferred tax on conversion to UK-REIT	(29,622)	–
Total tax (credited)/charged for the period reported in the Group Income Statement	(20,485)	2,466

	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
(c) Deferred tax		

The deferred tax included in the Group Balance Sheet is as follows:

Deferred tax liability		
On temporary differences	–	6,186
On revaluation gains	–	14,605
On derivative interest rate swaps	–	402
	–	21,193

Notes to the Financial Statements (continued)

6	Taxation (continued)	Eighteen months ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
	(c) Deferred tax		
	The deferred tax included in the Group Income Statement is as follows:		
	Accelerated capital allowances	–	1,625
	Revaluation gains on investment properties	3,880	1,306
	Release of deferred tax on conversion to UK-REIT status	(29,622)	–
	(Credit)/provision for deferred tax	<u>(25,742)</u>	<u>2,931</u>
	Deferred tax reconciliation:		
	Balance at beginning of the period/year	21,193	17,860
	Charge for the period	3,880	2,931
	Deferred tax liability on acquisition of Cathedral Healthcare Holdings Limited	4,951	–
	Deferred tax on cash flow hedge	(402)	402
	Deferred tax release on conversion to UK-REIT status	<u>(29,622)</u>	<u>–</u>
	Balance at end of period/year	<u>–</u>	<u>21,193</u>

7 Earnings per share

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

	Eighteen months to 31 December 2007			Year to 30 June 2006		
	Net profit attributable to Ordinary Shareholders £'000	Ordinary Shares number	Per Share pence	Net profit attributable to Ordinary Shareholders £'000	Ordinary Shares number	Per Share pence
Basic earnings per share	16,801	28,297,852†	59.4	15,937	22,667,946†	70.3
Option conversion*	–	–		–	861,960*	
Diluted earnings per share	<u>16,801</u>	<u>28,297,852</u>	<u>59.4</u>	<u>15,937</u>	<u>23,529,906</u>	<u>67.7</u>

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

* Excess of the total number of potential shares on option exercise over the number that could be issued at fair value, as calculated in accordance with International Accounting Standard No. 33: Earnings per share.

Notes to the Financial Statements (continued)

7 Earnings per share (continued)

Adjusted earnings per share for the period ended 31 December 2007

	Eighteen months to 31 December 2007			Year to 30 June 2006		
	Net profit attributable to Ordinary Shareholders		Ordinary Shares number	Net profit attributable to Ordinary Shareholders		Ordinary Shares number
	£'000	Per Share pence		£'000	Per Share pence	
Basic earnings per share	16,801	28,297,852 †	59.4	15,937	22,667,946 †	70.3
Adjustments to remove:						
Performance incentive fee#	2,591			–		
Goodwill impairment	5,551			–		
UK-REIT conversion charge	5,157			–		
Deferred tax charge	3,880			2,931		
Deferred tax release	(29,622)			–		
Net valuation gains	(4,857)			(14,997)		
Adjusted basic earnings per share	(499)	28,297,852	(1.8)	3,871	22,667,946	17.1
Option conversion*	–	–		–	861,960**	
Adjusted diluted earnings per share	(499)	28,297,852	(1.8)	3,871	23,529,906	16.5

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

The Performance Incentive Fee depends primarily on revaluation gains, which are eliminated in calculating adjusted earnings per share.

* Excess of the total number of potential Shares on option exercise over the number that could be issued at fair value as calculated in accordance with International Accounting Standard No. 33: Earnings per share.

** All Management Options were exercised in full on 21 September 2006.

The adjusted earnings per share are stated due to the large/one-off capital items affecting earning per share during the period/year.

Notes to the Financial Statements (continued)

8 Dividends paid and declared

Dividends paid in the period are as follows:

	No. of shares dividend paid upon	Eighteen months to 31 December 2007 £'000	Year ended 30 June 2006 £'000
Final dividend for the year ended 30 June 2006 (6.75p)	24,277,718	1,639	–
First interim dividend for the period ended 31 December 2007 (7.5p)	24,277,718	1,821	–
Second interim dividend for the period ended 31 December 2007 (7.5p)	33,587,094	2,519	–
Final dividend for the year ended 30 June 2005 (6.0p)	22,677,718	–	1,359
Interim dividend for the year ended 30 June 2006 (6.75p)	22,677,718	–	1,531
		5,979	2,890
		5,979	2,890

A third interim dividend was paid on 28 March 2008, in respect of the period ended 31 December 2007, of 8.25p per Ordinary Share (2006: final dividend of 6.75p per Ordinary Share), amounting to a total of £2,771,000 (2006: £1,531,000). No final dividend is to be paid.

Notes to the Financial Statements (continued)

9 Investment properties, properties in the course of development, development properties and development loans

As at 31 December 2007

	Investment properties freehold/ feuhold £'000	Investment properties long leasehold £'000	Properties in the course of development £'000	Development properties £'000	Development loans £'000	Total £'000
As at 1 July 2006	171,783	25,660	2,126	–	1,712	201,281
Additions	5,073	15,251	23,459	5,963	2,998	52,744
Properties acquired during the year through						
Cathedral acquisition	21,300			9,525		30,825
Disposals	(427)	–	–	–	–	(427)
Transfer from properties in the course of development upon completion	21,841	–	(21,841)	–	–	–
Transfer from development properties upon completion	8,576	3,282	–	(11,858)	–	–
Transfer from development loans upon completion	2,907	1,621	–	–	(4,528)	–
Impairment loss*	–	–	(2,973)	(777)		(3,750)
Revaluation for the period	4,476	381	–	–	–	4,857
	<u>235,529</u>	<u>46,195</u>	<u>771</u>	<u>2,853</u>	<u>182</u>	<u>285,530</u>

As at 30 June 2006

	Investment properties freehold/ feuhold £'000	Investment properties long leasehold £'000	Properties in the course of development £'000	Development loans £'000	Total £'000
As at 1 July 2005	141,213	18,855	2,243	2,310	164,621
Additions at cost	3,194	7,005	16,173	2,601	28,973
Disposals at revalued cost	(4,013)	(3,297)	–	–	(7,310)
Transfer from properties in the course of development upon completion	15,999	291	(16,290)	–	–
Transfer from development loans upon completion	2,866	333	–	(3,199)	–
Revaluation for the year	12,524	2,473	–	–	14,997
	<u>171,783</u>	<u>25,660</u>	<u>2,126</u>	<u>1,712</u>	<u>201,281</u>

* The impairment reflects the difference between the estimated market value of properties in the course of development at the period-end and their contracted development cost. The estimated market value is determined by reference to the contracted retail income for each property and market yields at the period end as advised by Lambert Smith Hampton, Chartered Surveyors.

The impairment has been reflected as an impairment provision against the capitalised cost of property.

Notes to the Financial Statements (continued)

9 Investment properties, properties in the course of development, development properties and development loans (continued)

Development loans include accrued interest amounting to £182,000 (2006: £90,000). Interest is charged between 1.1% and 1.5% above Bank of England Base Rate on development loans, and charged at 1% over LIBOR compounded every quarter on the development properties that were acquired on 22 December 2006 through the acquisition of Cathedral.

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. 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 historical cost of properties held by the Group, including properties in the course of development, was £219.1m (2006: £138.2m).

Property disposals during the period/year	31 December	30 June
	2007	2006
	£'000	£'000
Net proceeds of sale	471	7,711
Less: carrying value	(427)	(7,310)
Realised gain on disposal of property	<u>44</u>	<u>401</u>

10 Investments

The subsidiaries of the Company are stated below:

<i>Subsidiary</i>	<i>Principal activity</i>	<i>Proportion of voting rights and shares held</i>
Primary Health Investment Properties Limited (PHIP)†	Property investment	100%
Primary Health Investment Properties (No. 2) Limited (PHIP No. 2)†	Property investment	100%
Primary Health Investment Properties (No. 3) Limited (PHIP No. 3)†	Property investment	100%
PHIP CHH Limited†	Property investment	100%
PHIP CH Limited	Property investment	100%
PHIP (RHL) Limited	Property investment	100%
PHIP (SSG Norwich) Limited	Property investment	100%
PHIP (Hetherington Road) Limited	Property investment	100%
PHIP (Hoddesdon) Limited	Property investment	100%
PHIP (Milton Keynes) Limited	Property investment	100%
PHIP (Sheerness) Limited	Property investment	100%
AHG (2006) Limited	Property investment	100%

† Subsidiaries directly held by the Company.

Notes to the Financial Statements (continued)

11	Net investment in finance leases	31 December 2007 £'000	30 June 2006 £'000
	Amounts due in more than five years	2,736	2,436
	Amounts due between one and five years	178	56
		<u>2,914</u>	<u>2,492</u>
	Amounts due in less than one year	53	12
		<u>2,967</u>	<u>2,504</u>

There were no additions to finance leases during the period ended 31 December 2007 or year ended 30 June 2006.

12	Trade and other receivables	31 December 2007 £'000	30 June 2006 £'000
	Gross investment in finance leases	3,203	2,721
	Less: unearned financial revenues	(236)	(217)
	Present value of future minimum lease payment receivables	<u>2,967</u>	<u>2,504</u>
	Trade receivables	865	195
	VAT recoverable	1,320	14
	Prepayments	1,461	693
	Property purchase deposits paid	–	131
	Development property interest	540	–
		<u>4,186</u>	<u>1,033</u>

Notes to the Financial Statements (continued)

13	Cash and cash equivalents	31 December 2007 £'000	30 June 2006 £'000
	Cash held at bank	<u>3,862</u>	<u>3,973</u>

There is no overdraft facility in place.

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.

14	Trade and other payables	31 December 2007 £'000	30 June 2006 £'000
	UK-REIT Conversion charge	1,208	–
	Rents received in advance – deferred rental income	3,660	2,466
	Trade and other payables	<u>3,576</u>	<u>2,604</u>
		<u>8,444</u>	<u>5,070</u>

The UK-REIT conversion charge totals £5.1m, of which £0.5m has been paid, £1.208m is payable within the the next twelve months and the balance of £3.395m in instalments over the next 3 years.

15	Tax payable	31 December 2007 £'000	30 June 2006 £'000
	Corporation tax payable	<u>29</u>	<u>181</u>

Notes to the Financial Statements (continued)

16 Term loan

The term loan repayable in 2013 was subject to renegotiation during the period, resulting in an increase of facilities with the option to extend the terms. For period end, total facilities of £200m (2006: £135m) were available. Of these facilities, £160m was drawn as at 31 December 2007 (2006: £112.8m) 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 loan at a fixed percentage rate above LIBOR and interest payable has fluctuated in the period between 5.48% and 7.51% (2006: 5.32% and 5.82%), including lenders' margins and costs (excluding margins and costs 4.72% and 6.75% (2006: 4.56% and 5.06%). However, the Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 17.

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

Type	Facility		Amounts Drawn		Undrawn	
	31 December	30 June	31 December	30 June	31 December	30 June
	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000
364 day revolving*	10,000	10,000	–	–	10,000	10,000
Term to January 2013*	140,000	105,000	132,050	102,000	7,950	3,000
Term to January 2013**	50,000	20,000	27,800	10,800	22,200	9,200
	<u>200,000</u>	<u>135,000</u>	<u>159,850</u>	<u>112,800</u>	<u>40,150</u>	<u>22,200</u>

Provider:

* The Royal Bank of Scotland plc.

** Allied Irish Banks, p.l.c.

On 14 March 2008, the Group obtained a facility of £50m with Abbey National Treasury Services plc. This facility matures in 2013.

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

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

	31 December	30 June
	2007	2006
	£'000	£'000
Term loan drawn	159,850	112,800
Less: Unamortised borrowing costs	(631)	(437)
Term loan per Group Balance Sheet	<u>159,219</u>	<u>112,363</u>

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments

An explanation of the Group's financial risk management objectives, policies and strategy can be found in the Group Report of the Directors on pages 16 to 18. All of the Group's financial instruments are Sterling denominated.

a) Financial statements

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

2007 Fixed rate assets and liabilities

	Within 1 year £'000	1 – 2 years £'000	2 – 3 years £'000	3 – 4 years £'000	4 – 5 years £'000	More than 5 years £'000	Total £'000	Effective interest rate %
2007								
Finance leases	53	52	49	48	29	2,736	2,967	11.3
Interest rate swap (liabilities)/assets	(2,808)	–	–	–	–	1,427	(1,381)	4.8
Total	(2,755)	52	49	48	29	4,163	1,586	

2007 Floating rate assets and liabilities

	Within 1 year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000	Effective interest rate %
2007					
Cash	3,862	–	–	3,862	4
Development loans	–	182	–	182	6.6
Term loan	–	–	(159,219)	(159,219)	7.3
Total	3,862	182	(159,219)	(155,175)	

2006 Fixed rate assets and liabilities

	Within 1 year £'000	1 – 2 years £'000	2 – 3 years £'000	3 – 4 years £'000	4 – 5 years £'000	More than 5 years £'000	Total £'000	Effective interest rate %
2006								
Finance leases	12	12	13	15	16	2,436	2,504	11.3
Interest rate swap (liabilities)/assets	(74)	106	–	–	–	1,309	1,341	4.9
Total	(62)	118	13	15	16	3,745	3,845	

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued)

a) Financial statements (continued)

2006 Floating rate assets and liabilities

	Within 1 year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000	Effective interest rate %
2006					
Cash	3,973	–	–	3,973	3.5
Development loans	–	1,712	–	1,712	5.6 – 6.0
Term loan	–	–	(112,363)	(112,363)	4.6
Total	<u>3,973</u>	<u>1,712</u>	<u>(112,363)</u>	<u>(106,678)</u>	

Fair values of financial assets and financial liabilities

A comparison of the fair value of the Group's financial assets and financial liabilities is set out below. The fair value of derivatives and borrowings has been calculated by discounting the expected future cashflows at prevailing interest rates and the fair value of the net investment in finance leases has been determined by discounting the future receipts from those leases at the Group's current cost of capital.

	Book value 2007 £'000	Fair value 2007 £'000	Book value 2006 £'000	Fair value 2006 £'000
Trade and other receivables	1,405	1,405	195	195
Trade and other payables*	(3,576)	(3,576)	(2,604)	(2,604)
Term loan	(159,219)	(159,219)	(112,363)	(112,363)
Finance leases – due within one year	53	53	12	12
– due in more than one year	2,914	4,008	2,492	5,255
Cash	3,862	3,862	3,973	3,973
Development loans	182	182	1,712	1,712
Interest rate swap assets	1,651	1,651	1,415	1,415
Interest rate swap liabilities	<u>(3,032)</u>	<u>(3,032)</u>	<u>(74)</u>	<u>(74)</u>

* Included within trade and other payables is £573k (2006: £1,324k) of term loan interest.

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

The Group's borrowings have financial covenants. If these covenants were to be breached, the borrowings would become repayable immediately. These covenants require the Group to disclose gearing, loan-to-loan value and interest cover to the lender on a quarterly basis.

On 20 September 2006, the Group negotiated a £15m increase in loan facilities to £115m from The Royal Bank of Scotland plc and a £10m increase to £30m from Allied Irish Banks, p.l.c.

On 14 February 2007, the Group negotiated a further £20m increase in loan facilities to £140m from The Royal Bank of Scotland plc and a £20m increase to £50m from Allied Irish Banks, p.l.c.

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued)

a) Financial statements (continued)

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

The Group has negotiated an option to extend its ability to convert all of the term facilities into longer term finance that would mature in 2022. The actual borrowings (not inclusive of any unamortised borrowing costs) of £159.9m (2006: £112.8m) are secured unamortised on investment properties held.

Details of the undrawn facilities of the term loan are provided in note 16 on page 60.

Hedging activities

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

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

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

Contract value	Maturity	2007 Fixed interest per annum %
£10 million	August 2015	4.530
£10 million	June 2026	4.810
£70 million	July 2008	4.805
£30 million	February 2008	4.835
£25 million	May 2008	4.74

Contract value	Maturity	2006 Fixed interest per annum %
£5 million	July 2006	5.875
£5 million	March 2007	5.640
£5 million	July 2008	4.820
£5 million	July 2008	4.160
£10 million	January 2015	4.820
£10 million	July 2014	5.030
£10 million	August 2015	4.530
£10 million	January 2016	4.4625
£15 million	July 2006	5.140
£10 million	June 2026	4.81

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued)

a) Financial statements (continued)

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

Contract value	Start date	Maturity	2007 Fixed interest per annum %
£10 million	June 2016	June 2026	4.510
£10 million	July 2016	July 2026	4.400
£10 million	July 2016	July 2026	4.475
£10 million	July 2016	July 2026	4.455
£10 million	July 2016	July 2026	4.47875
£20 million	July 2017	July 2027	4.760
£40 million callable*	February 2008	May 2008	4.835
£33 million callable*	May 2008	August 2008	4.740
£65 million	July 2008	July 2009	4.805
£55 million	July 2009	January 2010	4.805
£75 million	January 2010	July 2010	4.805
£65 million	July 2010	July 2012	4.805
£73.3 million	July 2012	April 2013	4.805
£63.3 million	April 2013	July 2013	4.805
£70 million	July 2013	July 2015	4.805
£80 million	July 2015	July 2016	4.805

Contract value	Start date	Maturity	2006 Fixed interest per annum %
£20 million	July 2006	March 2007	5.140
£10 million	March 2007	March 2013	5.200
£20 million	January 2010	January 2015	4.735
£12.5 million	July 2006	July 2007	4.6375
£20 million	July 2007	July 2008	4.6375
£25 million	July 2008	July 2009	4.6375
£5 million	July 2009	July 2012	4.6375
£13.3 million	July 2012	July 2013	4.6375
£20 million	July 2013	July 2014	4.6375
£10 million	July 2009	July 2010	4.705
£10 million	June 2016	June 2026	4.510

* Not accounted for using hedge accounting.

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued)

b) Risk Management Policies and Procedures

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

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

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

Market Risk

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

Interest Rate Risk

Interest rate movements may affect:

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

Management of Risks

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

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

Interest rate exposure is managed within limits agreed by the Board and, as stipulated in the Articles of Association, gearing should not exceed 75% of gross assets. The Group aims to hedge its exposure to interest rate risk on the term loans by entering into interest rate swaps. At 31 December 2007, the fair value of interest rate swaps was £1.4m (2006: £0.9m) and these will impact upon cashflows up to July 2027.

After taking account of interest rate swap cover at 31 December 2007, £145m (91%) (2006: £85m (75%)) of actual borrowings were at fixed rates and £14m (9%) (2006: £28m (25%)) were at variable rates.

Borrowings subject to swap arrangements had a weighted average interest rate, including the lenders' margin of 5.5% and a weighted average maturity rate of 2.1 years.

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued) b) Risk Management Policies and Procedures (continued)

Interest Rate Exposure

The exposure at 31 December 2007 of financial assets and financial liabilities to interest rate risk is shown by reference to the interest rate profile of the Group and is set out in section a) of this note on page 61.

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances is at a margin of 1.0% below (2006: 1.0% below) the Bank of England base rate. The weighted average effective interest rate on these investments is 2.1% (2006: 0.7%).
- Interest paid on borrowings under the loan facility is at a margin of 0.76% over LIBOR (including costs) (see note 16 for details of interest rates).

The above period end amounts are representative of the risks managed during the year, because the level of exposure changes as borrowings are drawn down and repaid and the mix of borrowings between floating interest rates and fixed interest rates changes.

Interest Rate Sensitivity

The following table illustrates the impact of sensitivity of the profit after taxation for the period and equity to an increase or decrease of 50 basis points in interest rates in regard to the Group's monetary financial assets and financial liabilities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Group's monetary financial instruments held at each balance sheet date, with all other variables held constant.

Impact on financial statements	2007		2006	
	Increase in	Decrease in	Increase in	Decrease in
	rate	rate	rate	rate
	£'000	£'000	£'000	£'000
Income statement – profit after taxation	(1,118)	1,118	(125)	125
Equity	(1,118)	1,118	(125)	125

In the opinion of the Directors, the above sensitivity analyses are representative of the period as a whole, since the level of exposure changes frequently as borrowings are drawn down throughout the period.

Liquidity Risk

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

Management of the Risk

The Group has borrowing facilities in place, expiring in 2013, as stated in note 16, on which it can readily draw upon at any time. It has a total loan facility of £200m (2006: £135m), extending to £250m with effect from 14 March 2008 following an agreement signed with Abbey National Treasury Services plc.

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

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued) b) Risk Management Policies and Procedures (continued)

Liquidity Risk Exposure

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

	31 December 2007				30 June 2006			
	Less than one year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000	Less than one year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	3,003	–	–	3,003	1,280	–	–	1,280
Interest rates swaps	–	–	–	–	171	507	–	678
UK-REIT conversion charge	1,322	3,770	–	5,092	–	–	–	–
Term loan	11,690	46,760	160,824	219,274	6,071	24,287	122,413	152,771
Total	16,015	50,530	160,827	227,369	7,522	24,794	122,413	154,729

Credit Risk

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

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

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

Management of Risks

This risk is managed as follows:

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

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued)
b) Risk Management Policies and Procedures (continued)

Credit Risk Exposure

The maximum exposure to credit risk during the periods ending 31 December 2007 and 30 June 2006 was as follows:

	31 December 2007		30 June 2006	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Trade receivables	865	865	195	195
Cash at bank	3,862	3,862	3,973	3,973
	<u>4,727</u>	<u>4,727</u>	<u>4,168</u>	<u>4,168</u>

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

Credit quality of trade receivables

	Carrying amount £'000	Of which neither im- paired nor past due £'000	Of which not impaired and past due				
			less than 30 days £'000	between 30 days and 60 days £'000	between 61 and 90 days £'000	between 91 and 180 days £'000	more than 180 days £'000
As of 31 December 2007							
Trade receivables	865	202	390	–	–	272	1
As of 30 June 2006							
Trade receivables	195	65	130	–	–	–	–

Since the period end, £191k of the past dues as at 31 December 2007 have been collected, with the remainder being monitored. The Group is certain these past dues will be collected in full in the near future.

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued) b) Risk Management Policies and Procedures (continued)

Summary of Financial Assets and Financial Liabilities by Category

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

Financial Assets	31 December 2007 £'000	30 June 2006 £'000
Financial assets at fair value through profit or loss:		
Derivative interest rate swaps	1,651	1,415
Loans and receivables:		
Cash at bank	3,862	3,973
Trade and other receivables	1,405	195
Development loans	182	–
Finance leases	2,967	–
Other receivables (development property interest)	540	–
	<u>10,607</u>	<u>5,583</u>

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

Financial Liabilities	31 December 2007 £'000	30 June 2006 £'000
Measured at amortised cost:		
Trade and other payables	3,576	2,604
Borrowings under the term loan facility	159,219	112,363
Financial liabilities at fair value through profit or loss:		
Derivative interest rate swaps (callable)	2,808	–
	<u>165,603</u>	<u>114,967</u>

Notes to the Financial Statements (continued)

17 Derivatives and other financial instruments (continued) b) Risk Management Policies and Procedures (continued)

Capital Management Policies and Procedures

The Group's capital management objectives are:

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

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

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

	31 December 2007 £'000	30 June 2006 £'000
Assets		
Total Assets	<u>298,196</u>	<u>210,206</u>
Debt		
Term loans	159,219	112,363
Equity		
Equity share capital	16,794	11,339
Retained earnings and other reserves	<u>107,283</u>	<u>59,986</u>
	<u>124,077</u>	<u>71,325</u>
Total Capital	<u>283,296</u>	<u>183,688</u>
Debt as a % of Total Capital	<u>56.2%</u>	<u>61.2%</u>
Debt as a % of Total Assets	<u>53.4%</u>	<u>53.4%</u>

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

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

The Group is subject to several capital requirements.

- The bank borrowings under the loan facilities are not to exceed 75% of gross assets.
- Rental income must exceed borrowing costs by the ratio 1.3:1.
- UK-REIT compliance tests. These include loan to property value and gearing tests. The Group must satisfy these tests in order to continue trading as a UK-REIT. This is also an internal requirement imposed by the Articles of Association.

These requirements have changed due to the conversion to UK-REIT on 1 January 2007 and the Group has complied with all known requirements.

Notes to the Financial Statements (continued)

18 Called up share capital

	31 December 2007 Number	31 December 2007 £'000	30 June 2006 Number	30 June 2006 £'000
Authorised:				
Ordinary Shares of 50p each	50,000,000	25,000	40,000,000	20,000
Issued and fully paid at 50p each	33,587,094	16,794	22,677,718	11,339
At beginning of period	22,677,718	11,339	22,652,776	11,326
Issued on exercise of Management Options	1,600,000	800	–	–
Issued following placing participation	9,309,376	4,655	–	–
Issued following scrip dividend option for the year ended June 2005	–	–	24,942	13
At end of period	33,587,094	16,794	22,677,718	11,339

In respect of the final dividend for the year ended 30 June 2005, Shareholders were offered the opportunity to receive Ordinary Shares in lieu of the cash dividend. Holders of a total of 1,447,467 shares elected to receive Ordinary Shares instead of a cash dividend resulting in the issue of 24,942 new Ordinary Shares.

On 11 April 2007, 9,309,376 Ordinary shares of 50 pence each were issued arising in respect of a Placing and Open Offer, raising £38.7m net of expenses.

On 11 April 2007 the Shareholders approved an increase to the authorised share capital of the Group of 10m Ordinary Shares of 50p each (£5m).

Options to subscribe for Ordinary Shares of 50p each

On 21 September 2006, the Joint Managers exercised their Options to acquire 1.6m Ordinary Shares at £1.71 per share pursuant to the Management Option Agreement dated 17 September 2003.

At 31 December 2007 there were no Options outstanding.

19 Share-based payments

The exercise of the Joint Managers' Options, described above, constituted a share-based payment which was measured at fair value at the date of grant with an equivalent amount charged over the vesting period to the Group Income Statement, in accordance with IFRS 2: Share based payment. These share-based payments are equity settled transactions.

For the 30 June 2006 Group Balance Sheet, the fair value of these equity settled transactions was estimated as at the date of grant using the Black-Scholes derivative pricing model, taking into account the terms and conditions upon which the Options were granted, and the exercise price of £1.71, the vesting period of 2.54 years and the fair value of £0.388 per option. The performance criteria were met and therefore the share options vested on 31 March 2006.

Notes to the Financial Statements (continued)

19 Share-based payments (continued)

The terms and conditions were as follows:

Option grant date: 17 September 2003

Exercise price: 171p

Vesting period 2.54 years

Vesting date: 31 March 2006

Fair value per Option: £0.388

Total fair value £621,000

Minimum absolute growth in NAV from grant date to exercise date 7% per annum.

Summary of financial assumptions for the pricing model:

Volatility: 15% per annum

Dividend yield: 5.0% per annum

Risk free interest rate: 4.5 – 4.8% per annum

(depending upon term to exercise)

Best estimate outcome of NAV test: Passed at earliest opportunity on 31 March 2006

	2007	2006
Number and exercise prices of Share Options for each of the following groups of Options:		
outstanding at the beginning of the period;	1,600,000 @ £1.71	1,600,000 @ £1.71
exercised during the period;	1,600,000 @ £1.71	–
outstanding at the end of the period; and	–	1,600,000 @ £1.71
remaining contractual life	–	81 months
Share price at date of exercise (20 September 2006)	£4.82	–

20 Share Premium	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning of year	12,022	11,952
Premium on issue of 50p Ordinary Shares following placing and open offer participation	35,376	–
Premium on issue of 50p Ordinary Shares on exercise of Management Options	1,936	–
Premium on issue of 50p Ordinary Shares in lieu of cash dividend	–	74
Issue expenses	(1,325)	(4)
Balance at end of period/year	<u>48,009</u>	<u>12,022</u>

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 Financial Statements (continued)

21 Capital reserve

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

	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning and end of period/year	<u>1,618</u>	<u>1,618</u>

22 Cashflow hedging reserve

The interest rate swap derivatives disclosed on pages 63 and 64, are designated as hedges against the term loan with the exception of the following swaps:

- 4.835% for principal amounts £20m from August 2007 to November 2007, £30m from November 2007 to February 2008, £40m from February 2008 to May 2008 and £50m thereafter. Hedge accounting will not apply for this swap, as it is callable upon at each quarterly anniversary.
- 4.74% for principal amounts £25m from August 2007 to May 2008, £33m from May 2008 to August 2008 and £38m thereafter. Hedge accounting will not apply for this swap, as it is callable upon at each quarterly anniversary.

The swaps designated as hedges against the term loan are wholly effective hedges and therefore the gain or loss on each instrument is recognised directly in equity.

	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning of period/year	939	(1,292)
Transfer (to)/from Group Income Statement	(1,231)	238
Gains on cashflow hedge taken to equity	1,317	2,949
Deferred tax movement	402	(956)
Balance at end of period/year	<u>1,427</u>	<u>939</u>
Being:		
Valuation at end of period/year	1,427	1,341
Deferred tax thereon recognised in equity	–	(402)
Recognised in equity at end of period/year	<u>1,427</u>	<u>939</u>

Notes to the Financial Statements (continued)

23 Business Combinations

On 22 December 2006, the Group acquired 100% of the Ordinary Shares of Cathedral Healthcare Holdings Limited “CHH” for a consideration of £31.0m equivalent to the fair value of the assets obtained.

CHH was the holding company of a group of companies that owned nine primary healthcare facilities across the UK which have been incorporated into the Group’s portfolio.

Consideration of £30.9m was paid upon completion with a further balance of £0.1m paid in April 2007. Cash acquired upon acquisition of CHH amounted to £0.2m.

The total gross assets acquired once fully developed are expected to amount to £39.2m. These assets are expected to generate a total annual rental income of approximately £2.0m, reflecting an initial yield of approximately 5%.

As the Group paid consideration equal to the assessed value of the acquired properties, goodwill arises in respect of the other net liabilities acquired, principally a deferred tax liability of £4.9m. However, on conversion to UK-REIT, the deferred tax liability is eliminated resulting in an impairment of goodwill arising on acquisition.

No further goodwill has deemed to have been acquired from other assets.

Fair values of the net assets at date of acquisition were as follows:

	£’000
Investment properties	21,300
Development properties	9,525
Trade receivables	810
Cash	173
Trade payables	(1,346)
Deferred tax liabilities	(4,951)
Net assets acquired	<u>25,511</u>
Goodwill arising on acquisition	5,551
	<u><u>31,062</u></u>

Had the acquisition taken place on or by 1 July 2006, the Group would have earned additional revenues of £2,476k and suffered an additional loss of £431k for the period ended 31 December 2007.

Notes to the Financial Statements (continued)

23 Business Combinations (continued)

Post balance sheet combinations

On 4 January 2008 (following the period end), the Group acquired 100% of the shares in two companies, SPCD Northwich Limited and SPCD Shavington Limited from Sapphire Property Care Developments Limited ("SPCD") for a consideration respectively of £3.0m and £4.8m.

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

	SPCD Northwich Limited £'000	SPCD Shavington Limited £'000
Investment properties	3,237	3,873
Trade receivables	17	–
Trade payables	(3,017)	(3,822)
Net assets	<u>237</u>	<u>51</u>
Goodwill arising on acquisition	<u>2,775</u>	<u>4,783</u>
	<u><u>3,012</u></u>	<u><u>4,834</u></u>

Had the acquisitions taken place on or by the 1 July 2006 the additional revenues and profits earned by the Group for the period ended 31 December 2007 would have been as follows:

	£'000	£'000
Revenues	208	53
Profits	91	51

24 Retained earnings

	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning of period/year	45,407	32,175
Retained profit for the period/year	16,801	15,937
Share based payment charge (Note 19)	–	185
Final dividend for the previous year ended 30 June 2006 (2005: 30 June 2005)	(1,639)	(1,359)
First interim dividend for the current period ended 31 December 2007 (2006: 30 June 2006)	(1,821)	(1,531)
Second interim dividend for the current period ended 31 December 2007 (2006: 30 June 2006)	(2,519)	–
Balance at end of period/year	<u><u>56,229</u></u>	<u><u>45,407</u></u>

Notes to the Financial Statements (continued)

25	Net asset value per share and adjusted net asset value per share		
	a) Net asset value per share	31 December	30 June
		2007	2006
		pence	pence
	Ordinary Share – basic	369.42	314.52
	– diluted	369.42	305.06

The basic adjusted net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £124,077,000 (2006: £71,325,000) and on 33,587,094 (2006: 22,677,718) shares, being the number of shares in issue at the year end.

Diluted net asset value per share is calculated as follows:

		31 December	30 June
		2007	2006
		£'000	£'000
	Net assets:		
	Per Group Balance Sheet	124,077	71,325
	Add – Receipts from the exercise of Management Options	–	2,736
		<u>124,077</u>	<u>74,061</u>
		Number of	Number of
		Shares	Shares
	Ordinary Shares:		
	Issued share capital	33,587,094	22,677,718
	Add – New Shares issued assuming the exercise of Management Options	–	1,600,000
		<u>33,587,094</u>	<u>24,277,718</u>

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

Notes to the Financial Statements (continued)

25 Net asset value per share and adjusted net asset value per share (continued)

	31 December 2007	30 June 2006
	pence	pence
b) Adjusted net asset value per share		
Adjusted Ordinary share – basic	369.42	407.97
– diluted	369.42	392.35

The adjusted basic net asset value per Ordinary Share is based on adjusted net assets attributable to Ordinary Shareholders of £124,077,000 (2006: £92,518,000) and on 33,587,094 (2006: 22,677,718) shares, being the number of shares in issue at the year end.

Diluted adjusted net asset value per share is calculated as follows:

	31 December 2007	30 June 2006
	£'000	£'000
Net assets	124,077	71,325
Adjustments to add back:		
Deferred tax on temporary differences	–	6,186
Deferred tax on revaluation gains	–	14,605
Deferred tax on derivatives	–	402
Adjusted net assets	124,077	92,518
Add – Receipts from the exercise of Management Options	–	2,736
	<u>124,077</u>	<u>95,254</u>

	Number of Shares	Number of Shares
Ordinary Shares:		
Issued share capital	33,587,094	22,677,718
Add – New Shares issued assuming the exercise of Management Options	–	1,600,000
	<u>33,587,094</u>	<u>24,277,718</u>

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

There is no dilution for 2007, as the Management Options were exercised during the previous year ended 30 June 2006.

Notes to the Financial Statements (continued)

26 Total return per share

The total return per share in a period is calculated as the increase in net asset value per share (see note 25) plus the dividend per share paid.

The diluted total return per share is based on the diluted increase in net asset value per share (see note 25) and the dividend per share paid.

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

27 Capital commitments

Primary Health Investment Properties Limited, a wholly owned subsidiary of the Company, has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of £35.7m plus VAT (2006: £20.9m plus VAT).

28 Related party transactions

The Joint Managers of the Group, NPM and JOHCML, receive a management fee, calculated at 1% of the first £50m of the gross assets of the Group and 0.75% thereafter, subject to a minimum of £120,000 per annum, the first £100,000 of which is paid to NPM.

On 16 November 2006, Shareholders approved the amendments to the Management Agreement whereby the Joint Managers are entitled to a performance incentive fee of 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" as derived from the audited financial statements for the respective financial period.

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

The terms and conditions of the Management Agreement are described in the Report of the Directors on page 21 and details of the amounts paid in relation to related party transactions are provided in note 3 on page 48.

There are no employees other than the Directors listed on page 14.

29 Post Balance Sheet Events

On 4 January 2008, the Group purchased two Companies, SPCD Northwich Limited and SPCD Shavington Limited from Sapphire Primary Care Development, as noted in note 23 (Business Combinations).

The Group also arranged an additional £50m loan facility with Abbey National Treasury Services plc with effect from 14 March 2008.

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 period ended 31 December 2007 which comprise the Company Balance Sheet, the Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 20. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Primary Health Properties PLC for the period ended 31 December 2007.

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

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Group Report of the Directors is consistent with the financial statements. The information given in the Group Report of the Directors includes that specific information presented in the Chairman's Statement and the Managing Director's Report that is cross referenced from the Business Review section of the Group Report of the Directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Map showing the location of properties, Objective of the group, the Chairman's Statement, the Managing Director's Report, the Directors and Managers Profile, the Group Report of the Directors, the Corporate Governance report, the Directors' Remuneration Report, the Ten Year Summary of Key Performance Indicators, the Shareholder Information, the American Depositary Receipts (ADR) Programme information, and the Corporate Profile. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report

to the members of Primary Health Properties PLC (continued)

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Group Report of Directors is consistent with the parent company financial statements.

Ernst & Young LLP
Registered Auditor
London

Company Balance Sheet

as at 31 December 2007

	Notes	31 December 2007 £'000	30 June 2006 £'000
Fixed assets			
Investment in subsidiaries	6	260,610	138,788
Investments: development loans	5	182	1,712
Derivatives		1,651	1,415
		<u>262,443</u>	<u>141,915</u>
Current assets			
Debtors	7	2,187	329
Cash at bank	8	72	3,619
		<u>2,259</u>	<u>3,948</u>
Total assets		<u>264,702</u>	<u>145,863</u>
Creditors: amounts falling due within one year			
Derivatives	9	(1,464)	(1,688)
	9	(2,808)	(74)
	9	(4,272)	(1,762)
Net current (liabilities)/assets		<u>(2,013)</u>	<u>2,186</u>
Total assets less current liabilities		260,430	144,101
Creditors falling due after more than one year			
Term loan	10	(159,219)	(112,363)
Derivatives		(224)	–
		<u>(159,443)</u>	<u>(112,363)</u>
Provision for liabilities			
Deferred taxation	3	–	(402)
Total liabilities		<u>(163,715)</u>	<u>(114,527)</u>
Net assets		<u>100,987</u>	<u>31,336</u>
Capital and reserves			
Share capital	11	16,794	11,339
Share premium	12	48,009	12,022
Capital reserve	13	1,618	1,618
Cashflow hedging reserve	14	1,427	939
Profit and loss account	15	33,139	5,418
Equity Shareholders' funds		<u>100,987</u>	<u>31,336</u>
Net asset value per share – basic	16	300.67p	138.18p
– diluted		300.67p	140.34p

These financial statements were approved by the Board of Directors on 9 April 2008 and signed on its behalf by:

G A Elliot, Chairman

Company Reconciliation of Movements in Shareholders' Funds

for the eighteen months period ended 31 December 2007

	Share capital £'000	Share premium £'000	Capital reserve £'000	Cashflow hedging reserve £'000	Profit and loss account £'000	Total £'000
30 June 2006	11,339	12,022	1,618	939	5,418	31,336
Profit for the period	–	–	–	–	33,700	33,700
Transfer to profit and loss account on cashflow hedge	–	–	–	(1,231)	–	(1,231)
Income and expense recognised directly in equity:						
Gains on cashflow hedges taken to equity	–	–	–	1,317	–	1,317
Deferred tax on cash flow hedges for the period	–	–	–	52	–	52
Deferred tax on loss on cash flow hedges released*	–	–	–	350	–	350
Total recognised gains and losses for the period	–	–	–	488	33,700	34,188
Issue of shares (net of expenses)	5,455	35,987	–	–	–	41,442
Dividends paid and declared:						
Final dividend for the year ended 30 June 2006 (6.75p)	–	–	–	–	(1,639)	(1,639)
First Interim dividend for the period ended 31 December 2007 (7.5p)	–	–	–	–	(1,821)	(1,821)
Second Interim dividend for the year ended 31 December 2007 (7.5p)	–	–	–	–	(2,519)	(2,519)
31 December 2007	16,794	48,009	1,618	1,427	33,139	100,987

* Deferred tax was released in the period to 31 December 2006, due to the conversion to UK-REIT.

Company Reconciliation of Movements in Shareholders' Funds (continued)

for the eighteen months period ended 31 December 2007

	Share capital £'000	Share premium £'000	Capital reserve £'000	Cashflow hedging reserve £'000	Profit and loss account £'000	Total £'000
30 June 2005	11,326	11,952	1,618	(1,292)	2,844	26,448
Profit for the year	–	–	–	–	5,279	5,279
Transfer to profit and loss account on cashflow hedge	–	–	–	238	–	238
Income and expense recognised directly in equity						
Gains on cashflow hedges taken to equity	–	–	–	2,949	–	2,949
Deferred tax on cashflow hedges taken to equity	–	–	–	(956)	–	(956)
Total recognised gains and losses for the period	–	–	–	2,231	5,279	7,510
Issue of shares (net of expenses)	13	70	–	–	–	83
Share based payment adjustment	–	–	–	–	185	185
Dividends paid and declared:						
Final dividend for the year ended 30 June 2005 (6.0p)	–	–	–	–	(1,359)	(1,359)
Interim dividend for the year ended 30 June 2006 (6.75p)	–	–	–	–	(1,531)	(1,531)
30 June 2006	11,339	12,022	1,618	939	5,418	31,336

Notes to the Company Financial Statements

1 Accounting policies

Basis of preparation/statement of compliance

These financial statements have been prepared in accordance with applicable Accounting Standards and policies in the United Kingdom ("UK GAAP").

The Company has taken advantage of the Companies Act 1985 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 cashflow statement, under the terms of FRS 1 (Revised 1996) 'Cashflow Statements'.

Convention

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

Conversion to UK-REIT and Change in Accounting Reference Date

The Group, of which the Company is parent, converted to a UK-REIT, effective 1 January 2007 and consequently, the Company's accounting reference date was changed to 31 December. The current accounting reference period therefore comprises the 18 months ended 31 December 2007.

Development loans

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

Income

Revenue is recognised in the financial statements as follows.

Interest income

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

Dividends

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

Investment in subsidiaries

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

Notes to the Company Financial Statements (continued)

1 Accounting policies (continued)

Derivatives, financial instruments and hedging

FRS 26 'Financial Instruments: Measurement' requires the Company to recognise and measure its derivative financial instruments at fair value. Therefore the Company hedge accounting derivatives have been measured at fair value.

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

The Company uses derivative financial instruments, such as interest rate swaps, to hedge its risks associated with exposure to interest rate fluctuations and the resulting variability in cashflows.

For those derivatives designed as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

Any gains and losses arising from changes in the fair value of the derivatives that do not qualify for hedge accounting are taken to the profit and loss account. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cashflow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the profit and loss account or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Share based payments

Share based payments are measured at fair value at the date of grant with an equivalent amount charged over the vesting period to the profit and loss account. The fair value has been calculated using a derivative pricing model known as the Black-Scholes formula using assumptions deemed to be consistent with the price that one might expect the incentive to have if it were traded in the markets.

Derivatives, financial instruments and hedging (continued)

Equity settled transactions

The cost of equity-settled transactions with the Joint Managers is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the Joint Managers become fully entitled to the award. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Notes to the Company Financial Statements (continued)

1 Accounting policies (continued)

Derivatives, financial instruments and hedging (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each Balance Sheet date before vesting period, the cumulative expense is calculated, representing the extent to which the vesting period has expired and the best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

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	Period ended	Year ended
(a) Current tax	31 December	30 June
	2007	2006
	£'000	£'000
UK Corporation tax	2	103
	<u>2</u>	<u>103</u>
	<u>2</u>	<u>103</u>

(b) Deferred tax

The deferred tax included in the Balance Sheet is as follows:

	Period ended	Year ended
	31 December	30 June
	2007	2006
	£'000	£'000
Deferred tax liability		
Revaluation of cashflow hedges	–	402
Deferred tax release on conversion to UK-REIT status	(402)	–
	<u>–</u>	<u>402</u>
	<u>–</u>	<u>402</u>
The deferred tax taken direct to equity:		
Opening balance at beginning of period/year	402	–
Revaluation gains on cashflow hedges	–	402
Deferred tax release on conversion to UK-REIT status	(402)	–
	<u>–</u>	<u>402</u>
Provision for deferred tax	<u>–</u>	<u>402</u>

Following the conversion to a UK-REIT, the Company is no longer liable to taxation arising from REITable income and, therefore, the deferred tax liabilities were removed on conversion. Further details can be found in the Chairman's Statement.

Notes to the Company Financial Statements (continued)

4	Dividends paid and declared	Period ended 31 December 2007 £'000	Year ended 30 June 2006 £'000
	Final dividend for the year ended 30 June 2006 6.75p (2006: June 2005 6.0p)	1,639	1,359
	First Interim dividend for the period ended 31 December 2007 7.5p (2006: June 2006 6.75p)	1,821	1,531
	Second Interim dividend for the period ended 31 December 2007 7.5p	2,519	–
		<u>5,979</u>	<u>2,890</u>
5	Development loans	As at 31 December 2007 £'000	As at 30 June 2006 £'000
	As at beginning of period	1,712	2,310
	Additions at cost	2,998	2,601
	Transfer to investment properties held in subsidiary following completion	(4,528)	(3,199)
	As at end of period	<u>182</u>	<u>1,712</u>
	Figures shown include accrued interest on development loans amounting to £182,000 (2006: £90,000).		
6	Investments	Investment in subsidiaries	
		Shares £'000	Loans £'000
		Total £'000	
	At 1 July 2006	211	138,577
	Loans to subsidiary during the period	–	62,846
	Additions*	59,000	–
	Disposals**	(24)	–
	At 31 December 2007	<u>59,187</u>	<u>201,423</u>
		Shares £'000	Loans £'000
		Total £'000	
	At 1 July 2005	187	115,904
	Loans to subsidiary during the year	–	22,673
	Increase in Shares*	24	–
	At 30 June 2006	<u>211</u>	<u>138,577</u>

* Additional shares purchased by the Company are as follow:

- Purchase of 58,000,000 Redeemable Preference shares of £1 each from a subsidiary company on 15 October 2007.
- Purchase of 1,000,000 Redeemable Preference shares of £1 each from a subsidiary company on 15 October 2007.

** In respect of the issued share capital of the two Netherlands subsidiaries, dissolved on 28 December 2007.

Notes to the Company Financial Statements (continued)

6 Investments (continued)

Investment additions

On 22 December 2006, the Company acquired 100% of the Ordinary Shares of Cathedral Healthcare Holdings Ltd (“CHH”) for a consideration at book value of £31.0m equivalent to the fair value of the assets obtained.

CHH was the holding company of a group of companies that owned nine primary healthcare facilities across the UK which have been incorporated into the Group’s portfolio.

Of the nine facilities, three are under construction and are expected to be completed by 31 December 2007. In addition, two of the completed facilities are undergoing extension work, which is also expected to be finished in 2007.

Consideration of £30.9m was paid upon completion with a further balance of £0.1m paid in April 2007. Cash acquired upon acquisition of CHH amounted to £0.2m.

The total gross assets acquired once fully developed are expected to amount to £39.2m. These assets are expected to generate a total annual rental income of approximately £2.0m, reflecting an initial yield of approximately 5%.

As the Company paid consideration equal to the assessed value of the acquired properties, goodwill arises in respect of the other net liabilities acquired, principally a deferred tax liability of £4.9m. However, on conversion to UK-REIT, the deferred tax liability is eliminated resulting in an impairment of goodwill arising on acquisition.

No further goodwill has deemed to have been acquired from other assets.

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

	£’000
Investment properties	21,300
Development properties	9,525
Trade receivables	810
Cash	173
Trade payables	(1,346)
Deferred tax liabilities	(4,951)
	<hr/>
Net assets acquired	25,511
Goodwill arising on acquisition.	5,551
	<hr/>
	<u>31,062</u>

The subsidiaries of the Company are stated overleaf:

Notes to the Company Financial Statements (continued)

6 Investments (continued)

Investment additions (continued)

<i>Subsidiary</i>	<i>Principal activity</i>	<i>Proportion of voting rights and shares held</i>
Primary Health Investment Properties Limited (PHIP)*	Property investment	100%
Primary Health Investment Properties (No. 2) Limited (PHIP No. 2)*	Property investment	100%
Primary Health Investment Properties (No. 3) Limited (PHIP No. 3)*	Property investment	100%
PHIP CHH Limited*	Property investment	100%
PHIP CH Limited	Property investment	100%
PHIP (RHL) Limited	Property investment	100%
PHIP (SSG Norwich) Limited	Property investment	100%
PHIP (Hetherington Road) Limited	Property investment	100%
PHIP (Hoddesdon) Limited	Property investment	100%
PHIP (Milton Keynes) Limited	Property investment	100%
PHIP (Sheerness) Limited	Property investment	100%
AHG (2006) Limited	Property investment	100%

* Subsidiaries are directly held by the Company.

7 Debtors

	31 December 2007 £'000	30 June 2006 £'000
VAT recoverable	1,712	301
Prepayments	475	28
	<u>2,187</u>	<u>329</u>

8 Cash at bank

	31 December 2007 £'000	30 June 2006 £'000
Cash held at bank	<u>72</u>	<u>3,619</u>

There is no overdraft facility in place.

Notes to the Company Financial Statements (continued)

9 Creditors: amounts falling due within one year

	31 December 2007 £'000	30 June 2006 £'000
Derivatives	2,808	74
Other creditors and accruals	1,464	1,585
Corporation tax payable	–	103
	<u>4,272</u>	<u>1,762</u>

10 Term loan

Type	Facility		Amounts Drawn		Undrawn facility	
	31 December 2007 £'000	30 June 2006 £'000	31 December 2007 £'000	30 June 2006 £'000	31 December 2007 £'000	30 June 2006 £'000
364 day revolving	10,000	10,000*	–	–	10,000	10,000
Term to January 2013	140,000	105,000*	132,050	102,000	7,950	3,000
Term to January 2013	50,000	20,000**	27,800	10,800	22,200	9,200
	<u>200,000</u>	<u>135,000</u>	<u>159,850</u>	<u>112,800</u>	<u>40,150</u>	<u>22,200</u>

* The Royal Bank of Scotland plc.

** Allied Irish Banks, p.l.c.

On 14 March 2008, the Company obtained a facility of £50m with Abbey National Treasury Services plc. This facility matures in 2013.

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

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

	31 December 2007 £'000	30 June 2006 £'000
Term loan drawn	159,850	112,800
Less: Unamortised borrowing costs	(631)	(437)
Term loan per Company Balance sheet	<u>159,219</u>	<u>112,363</u>

Notes to the Company Financial Statements (continued)

11 Called up share capital

	31 December 2007		30 June 2006	
	Number	£'000	Number	£'000
Authorised:				
Ordinary Shares of 50p each	50,000,000	25,000	40,000,000	20,000
Issued and fully paid at 50p each	33,587,094	16,794	22,677,718	11,339
At 1 July	22,677,718	11,339	22,652,776	11,326
Issued on exercise of Management Options	1,600,000	800	–	–
Issued following placing and open offer participation	9,309,376	4,655	–	–
Issued following scrip dividend for the year ended June 2005	–	–	24,942	13
At 31 December/30 June	33,587,094	16,794	22,677,718	11,339

In respect of the final dividend for the year ended 30 June 2005, Shareholders were offered the opportunity to receive Ordinary Shares in lieu of the cash dividend. Holders of a total 1,447,467 shares elected to receive Ordinary Shares instead of a cash dividend resulting in the issue of 24,942 new Ordinary Shares.

On 11 April 2007, 9,039,376 Ordinary Shares of 50 pence each were issued arising in respect of a Placing and Open offer raising £38.7m net of expenses.

On 11 April 2007, Shareholders approved the increase in the authorised share capital of the Company of 10m Ordinary Shares of 50p each (£5m).

Options to subscribe for Ordinary Share 50p each

On 21 September 2006, the Joint Managers exercised their Options to acquire 1.6m Ordinary Shares at £1.71 per Share, pursuant to the Management Option Agreement dated 17 September 2003.

12 Share Premium	31 December	30 June
	2007	2006
	£'000	£'000
Balance at beginning of period/year	12,022	11,952
Premium on issue of 50p Ordinary Shares following placing participation	35,376	–
Premium on issue of 50p Ordinary Shares on exercise of Management Options	1,936	–
Premium on issue of 50p Ordinary Shares in lieu of cash dividend	–	74
Issue expenses	(1,325)	(4)
Balance at end of period/year	48,009	12,022

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)

13 Capital reserve

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

	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning and end of period/year	<u>1,618</u>	<u>1,618</u>

14 Cashflow hedging reserve

Certain interest rate swap derivatives disclosed on pages 63 and 64, are designated as hedges against the term loan. Apart from the callable swaps, these hedges meet the criteria for hedging accounting and therefore the gain or loss on each instrument is recognised directly in equity.

	31 December 2007 £'000	30 June 2006 £'000
Balance at start of period/year	939	(1,292)
Transfer to income statement	(1,231)	238
Gains on cashflow hedge taken to equity	1,317	2,949
Deferred tax movement	402	(956)
Balance at end of period/year	<u>1,427</u>	<u>939</u>
Being:		
Valuation at start of period/year	1,427	1,341
Deferred tax thereon recognised in equity	–	(402)
Recognised in equity at end of period/year	<u>1,427</u>	<u>939</u>

15 Profit and loss account

	31 December 2007 £'000	30 June 2006 £'000
Balance at beginning of period/year	5,418	2,844
Retained profit for the period/year	33,700	5,279
Share based payment charge	–	185
Final dividend for the previous period ended 30 June 2006 (2006: 30 June 2005)	(1,639)	(1,359)
First Interim dividend for the current period 31 December 2007 (2006: 30 June 2006)	(1,821)	(1,531)
Second Interim dividend for the current period 31 December 2007 (2006: 30 June 2006)	(2,519)	–
Balance at end of period/year	<u>33,139</u>	<u>5,418</u>

Notes to the Company Financial Statements (continued)

16	Net asset value per share		
	a) Net asset value per share	31 December	30 June
		2007	2006
		pence	pence
	Ordinary share – basic	300.67	138.18
	– diluted	300.67	140.34

The basic adjusted net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £107,371,000 (2006: £31,336,000) and on 33,587,094 (2006: 22,677,718) shares, being the number of shares in issue at the year end.

		31 December	30 June
		2007	2006
		£'000	£'000
	Net assets:		
	Per Company Balance Sheet	100,987	31,336
	Add – Receipts from the exercise of Management Options	–	2,736
		<u>100,987</u>	<u>34,072</u>
		Number of	Number of
		Shares	Shares
	Ordinary Shares:		
	Issued share capital	33,587,094	22,677,718
	Add – New Shares issued assuming the exercise of Management Options	–	1,600,000
		<u>33,587,094</u>	<u>24,277,718</u>

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

17 Share based payments

The cost of equity settled share options is measured by reference to the fair value at the date the management options to JOHCML and NPM were granted (17 September 2003). The charge for the period ended 31 December 2007 is £nil (2006: £185,000).

Share based payments are measured at fair value at the date of grant with an equivalent amount charged over the vesting period to the profit and loss account, in accordance with FRS 20: Share based payments. These Share based payments are equity settled transactions.

The fair value of these equity settled transactions was estimated as at the date of grant using the Black-Scholes derivative pricing model, taking into account the terms and conditions upon which the options were granted and, the exercise price of 171 pence, the vesting period of 2.54 years and the fair value of £0.388 per option. The performance criteria have been met and therefore the share options vested on 31 March 2006.

Notes to the Company Financial Statements (continued)

17 Share based payments (continued)

The terms and conditions are as follows:

Option grant date: 17 September 2003

Exercise price: 171p

Vesting period 2.54 years

Vesting date: 31 March 2006

Fair value per Option: £0.388

Total fair value £621,000

Minimum absolute growth in NAV from grant date to exercise date: 7% per annum.

Summary of financial assumptions for the pricing model:

Volatility: 15% per annum

Dividend yield: 5.0% per annum

Risk free interest rate: 4.5 – 4.8% per annum

(depending upon term to exercise)

Best estimate outcome of NAV test: Passed at earliest opportunity on 31 March 2006.

	2007	2006
Number and weighted average exercise prices of Share Options for each of the following groups of Options:		
outstanding at the beginning of the period;	1,600,000 @ £1.71	1,600,000 @ £1.71
exercised during the period;	1,600,000 @ £1.71	–
outstanding at the end of the period; and	–	1,600,000 @ £1.71
remaining contractual life	–	81 months
Share price at date of exercise (20 September 2006)	£4.82	–

18 Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £35.7m (2006: £20.9m).

19 Related party transactions

Details of related party transactions are provided in the Report of the Directors on page 21, and note 3 on page 49. There are no employees other than the Directors, listed on page 14.

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.

20 Post balance sheet events

The Company also arranged an additional £50m loan facility with Abbey National Treasury Services plc with effect from 14 March 2008.

Ten Year Summary of Key Performance Indicators

	UK GAAP							IFRS			
	1998	1999	2000	2001	2002	2003	2004	2004	2005	2006	2007 [#]
Net assets (£m)	17.1	18.4	20.4	23.9	29.9	37.9	49.9	39.7	57.1	71.3	124.1
Net asset value per share (p)											
– basic	107.0	117.4	129.7	152.5	181.3	226.8	274.7	218.8	251.9	314.5	369.4
– diluted	107.0	115.8	125.0	142.2	164.6	200.6	243.7	200.0	246.6	305.1	369.4
Increase in net asset value per share (p)											
– basic	5.0	10.4	12.3	22.8	28.8	45.5	47.9	N/A	33.1	62.6	54.9
– diluted	5.0	8.8	9.2	17.2	22.4	36.0	43.1	N/A	46.6	58.5	64.3
Closing portfolio including development loans and finance leases (£m)	23.3	39.0	51.8	63.5	80.1	96.3	131.1	131.1	167.1	203.8	288.5
Annualised rent roll (£m)	1.7	2.9	4.3	5.0	6.2	6.9	8.4	8.4	10.0	11.3	16.2
Profit/(Loss) before taxation (£m)	1.1	1.0	1.2	1.6	2.0	2.2	2.5	N/A	19.4	18.4	(3.7)
Earnings per share (p)											
– basic	5.3	6.6	7.1	9.1	11.3	11.8	13.9	N/A	59.1	70.3	59.4
– diluted	5.3	6.6	7.0	8.7	10.4	10.8	12.8	N/A	55.4	67.7	59.4
Interim and final dividend per share (p)	5.6	6.0	7.0	8.0	9.0	10.0	11.0	11.0	12.0	13.5	23.25
Total return per share (p)											
– basic	10.6	16.4	19.3	30.8	37.8	55.5	59.0	N/A	45.1	76.1	78.2
– diluted	10.6	14.8	16.2	25.2	31.4	46.0	54.0	N/A	58.6	72.0	87.7
Market price per share at 30 June/31 December (p)	98.0	104.0	116.5	149.0	180.0	179.0	245.0	245.0	310.5	404.0	314.0
Movement in Investment Property Databank ('IPD') Index since previous annual report*†	107.6	110.8	117.8	118.6	119.4	122.7	132.5	100.0	110.4	127.2	120.3
Movement in diluted net asset value per share since previous annual report*	104.9	113.5	122.5	139.4	161.4	196.7	238.9	100.0	123.3	152.6	184.6

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

† Capital return

18 month period

The figures for the year 2004 and thereafter are in accordance with IFRS. It is not considered practical to restate figures prior to 2004.

Shareholder Information

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

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

Share Service

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

For details of the service please contact:

Capita IRG Trustees Limited

PHP Share Service

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

CIRGT Shareholder helpline 0871 664 0300 (calls cost 10p per minute plus network charges).

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

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

Share Price

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

Payment of Dividends

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

Shareholder Information (continued)

Financial Calendar 2008

Financial year end	31 December
Preliminary Results	9 April
Annual Report	28 April
Annual General Meeting	17 June
Dividend payment	28 March 2008 (Interim Dividend)
Interim end	30 June
Interim figures announced	August
Interim Dividend payment	October

Annual General Meeting

The Company's Annual General Meeting will be held on 17 June 2008 commencing at 2.30pm in the Board Room at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB.

Taxation status

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

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

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

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

Email – ssd@capitaregistrars.com

Postal Requests –

Capita Registrars

Shareholder Services Department

The Registry

34 Beckenham Road

Beckenham

Kent

BR3 4TU

Shareholder Information (continued)

Share Dealing

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

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

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

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

Capita Share Dealing Services

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

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

Channel	% of Trade Value	Min Charge	Max Charge	Compliance Charge*
Telephone	1.5%	£22.50	£100.00	£2.50
Internet	1%	£17.50	£50.00	£2.50

*The additional charge of £2.50 so added to each transaction, is to cover the increasing cost of complying with UK and EU regulation.

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

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

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

- www.capitadeal.com (on-line dealing) (24 hours)
- 0871 664 0446 (calls cost 10p per minute plus network charges) (telephone dealing) (8.00am – 4.30pm Monday to Friday)

General Information About the Company

General information about the Company can be seen on the PHP web site at www.phpgroup.co.uk. Alternatively you may contact Harry Hyman or Tim Walker-Arnott on 01483 749020.

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 # for domestic callers 1-888-BNY-ADRS
International callers: +1-610-382-7836
Email: shareowners@bankofny.com

What is an ADR?

An ADR is a negotiable U.S. certificate representing US ownership of shares in a Non U.S. company, quoted and traded in US Dollars in the US Securities Market. Any dividends are paid in US Dollars.

Further details on The Bank of New York’s web site at: www.adrbnymellon.com

Corporate Profile

Directors

G A Elliot (Chairman)
H A Hyman (Managing Director)
M J Gilbert (W J C Hemmings: alternate)
J D Hambro
Dr I P Rutter OBE
A R Jones

Company Secretary and Registered Office

J O Hambro Capital Management Limited
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
020 7747 5678
Fax: 020 7747 5611

Joint Managers

Nexus PHP Management Limited
2nd Floor
Griffin House
West Street
Woking GN21 6BS
01483 749020

J O Hambro Capital Management Limited

Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
020 7747 5678

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
General enquiries: 0871 664 0300 (calls cost 10p per minute plus network charges)
e-mail address: ssd@capitaregistrars.com
Online dealing: www.capitadeal.com
Telephone dealing: 0871 664 0446 (calls cost 10p per minute plus network charges)
: Share service www.capitaregistrars.com/php
: CIRGT Shareholder helpline 0871 664 0300 (calls cost 10p per minute plus network charges)

Stockbrokers

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

Daniel Stewart and Company plc
Becket House
36 Old Jewry
London EC2R 8DD

Solicitors

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

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

Modern Accommodation for the delivery of Primary Healthcare Services



Robin Hood Lane Health Centre
Sutton, Surrey
Tenant(s): GP Practice
Date of completion: November 2007
NIA: 16,400sqft. Cost: £7.2m



Kippax Health Centre
Kippax, Leeds
Tenant(s): GP Practice, PCT Space and Pharmacy
Date of purchase: July 07
NIA: 17,700sqft. Cost: £4.9m



Prospect House Medical Centre
Kettering, Northamptonshire
Tenant(s): Two GP Practices and Pharmacy
Date of completion: March 07
NIA: 39,500sqft. Cost: £11.4m



Waterloo Health Centre
Huddersfield
Tenant(s): GP Practice
Date of purchase: September 07
NIA: 8,100sqft. Cost: £2.0m



Hebburn
Tyne and Wear
Tenant(s): GP Practice, PCT and Pharmacy
Date of purchase: September 07
NIA: 22,300sqft. Cost: £5.2m



Firdale Medical Centre
Northwich, Cheshire
Tenant(s): GP Practice and Pharmacy
Date of purchase: February 08
NIA: 10,500sqft. Cost: £3.1m

PRIMARY HEALTH PROPERTIES PLC

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

Telephone: 01483 749 020

PHP website: www.phpgroup.co.uk

NEXUS website: www.nexusgroup.co.uk