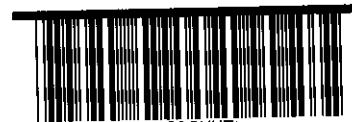


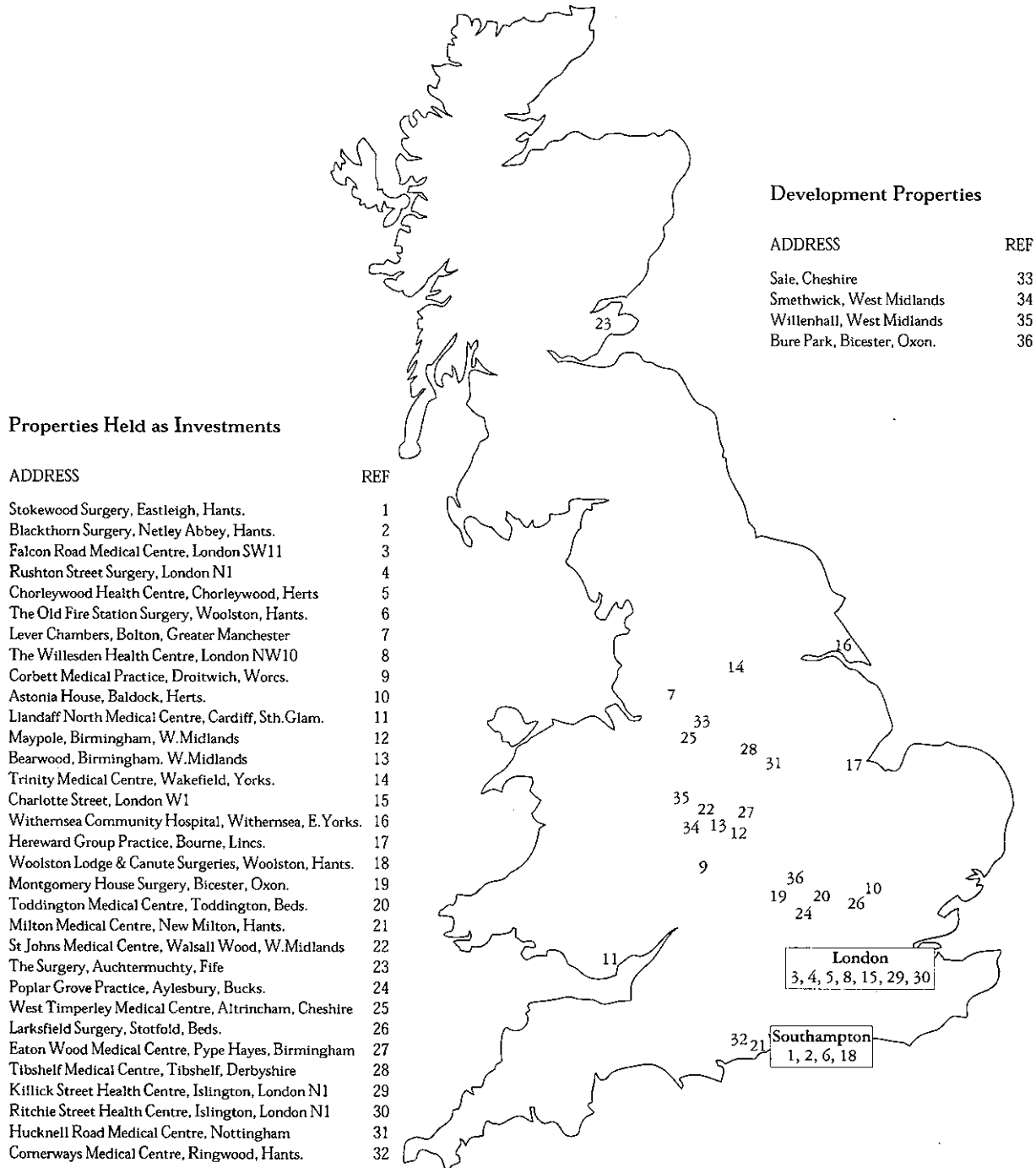
PRIMARY HEALTH PROPERTIES PLC

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
30 JUNE 2000



A02 *ANGS2WHT* 0182
COMPANIES HOUSE 16/12/00

Map showing location of Properties



Contents

	<i>Page</i>
Objective of the Group	2
Group Financial Highlights	2
Financial Calendar	2
Final Dividend Calendar	2
Chairman's Statement	3
Managing Director's Report	4
Directors and Advisers	7
Report of the Directors	8
Corporate Governance	12
Report of the Auditors	15
Consolidated Profit and Loss Account	16
Consolidated Balance Sheet	17
Company Balance Sheet	18
Consolidated Cash Flow Statement	19
Notes to the Accounts	20
Notice of Annual General Meeting	32
Corporate Profile	34
Form of Proxy	

Objective of the Group

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

Group Financial Highlights

	As at 30 June 2000	As at 30 June 1999
Net assets (£m)	20.4	18.4
Net asset value per share (p)	129.7	117.4
Increase in net asset value per share (p)	12.3	10.4
Closing portfolio including development loans and finance leases (£m)	51.8	39.0
Commitments (£m)	5.4	6.7
Portfolio purchased and committed (£m)	57.2	45.7
Annual rent roll (£'000)	4,261	2,900
Profit before exceptional costs (£'000)	1,240	1,065
Profit before taxation (£'000)	1,240	961
Profit after taxation (£'000)	1,116	1,054
Earnings per share (p)	7.1	6.6
Proposed final dividend per share (p)	3.6	3.4
Total dividend per share (p)	7.0	6.0
Total return per share (p)	19.3	16.4

Financial Calendar

Financial year end	30 June
Half year – results announced	March
Full year – results announced	September
Annual General Meeting	November
Dividend payments	May and November

Final Dividend Calendar

Record date	6 October
Ex-dividend date	2 October
Payment date	23 November

PRIMARY HEALTH PROPERTIES PLC

Chairman's Statement

During the past year the Group has made excellent progress with the total return per share increasing from 16.4p to 19.3p. Group profit before taxation for the year ended 30 June 2000 totalled £1,240,000 (1999: £961,000).

The Board has recommended a final dividend of 3.6p per share, which, when added to the interim, makes a total of 7.0p, an increase of 16.7% over the total dividend of 6.0p paid in respect of the previous year.

Lambert Smith Hampton has carried out a valuation of the Group's investment properties, which has resulted in a revaluation surplus of £1,912,000. The net asset value per share has risen from 117.4p to 129.7p, an increase of 10.5%.

During the year the Group successfully concluded the rent reviews at Charlotte Street, where the rent has increased from £100,000 to £225,000 per annum, and at Rushton Street, where the rent has increased from £178,000 to £300,000 per annum. The year-end rent roll has now increased from £2,900,000 to £4,261,000 per annum. Other rent reviews achieved during the period, although smaller in absolute terms, lead us to believe that it should be possible for the Group to achieve annual increases in the order of 2.5%–3% per annum over our typical three-year rent review period.

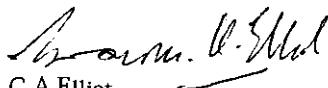
During the year the Group has continued to expand its portfolio including development loans and finance leases such that, at 30 June 2000, it totalled £51.8 million after revaluation surpluses. In addition, the Group has outstanding commitments to purchase a further £5.4 million of property. Further details are set out in the Managing Director's Report.

During the period medium term interest rates increased significantly and the Group has seen the benefit of the £13 million of swaps that were put in place last year for 51% of bank term loan borrowings. The swap facilities expire in September 2004 with the interest rate fixed at 5.78%.

The Group's strategy remains to develop the portfolio, initially to £100 million, at which stage some form of relatively cheaper non-recourse securitisation should be achievable. In the meantime, the Board has concluded that a prudent increase in borrowing levels is desirable, given the security of the Group's income stream, and, accordingly, we are including in this year's Notice of Annual General Meeting a resolution to increase the gearing level from 65% to 70% of gross assets.

At last year's Annual General Meeting the Company was given the power to repurchase its shares. Whilst 300,000 shares were repurchased in the previous year, none have been repurchased this year. Nevertheless the Board wishes to retain this option and a resolution to this effect is again included for this year's Annual General Meeting.

We believe that the Group continues to be the largest specialist investor in primary care property in the UK and that our portfolio is exceptional in terms of covenant and length of lease. The pipeline of transactions remains longer than ever and we are confident of our ability to make further significant and attractive additions to our portfolio.



G A Elliot
Chairman

25 September 2000

Managing Director's Report

The year to 30 June 2000 saw the continued development of our portfolio. This is reflected in the growth in the Group's turnover, which rose from £2,391,000 to £3,691,000 and an increase in the year end rent roll from £2,900,000 to £4,261,000.

During the year we continued to expand our portfolio, both in total terms and on a delivered basis, such that at 30 June 2000 our portfolio totalled £51.8 million including £1.0 million of property in the course of development and £2.5 million of property classified as a finance lease.

As reported in the Chairman's statement, the portfolio has been re-valued as at 30 June 2000 and the uplift of £1.9 million has been incorporated in the balance sheet, giving a closing investment property valuation of £49.3 million. The increase in net asset value amounts to 12.3 pence per share.

At the year end the Group also had outstanding commitments to purchase a further £5.4 million of property. This brought the portfolio, including commitments, to a total of £57.2 million as at the end of June. As at 30 June 2000 our portfolio had a rent roll of some £4.3 million (1999: £2.9 million) producing a yield on cost of 9.3% (1999: 8.8%). This marked improvement in the yield on cost was mainly attributable to the two successful rent reviews completed during the year.

The pie chart below shows the proportion of our rent roll that comes from GP's NHS Trusts, Health Authorities and other users with some 98% coming directly or indirectly from the NHS and pharmacy operators.

Covenant Analysis by Annual Rent

We continue to believe that our strength and security of our recurring income stream is extremely attractive and this is shown in diagrams below and on page 5. The pie chart shows that approximately 90% of our rent roll derives from leases with more than 15 years unexpired, while the security of income diagram shows the contracted cash flows as a percentage of the year end rent roll from these leases over the next 20 years.

Analysis of Rent Roll by Lease Term Unexpired

Managing Director's Report *continued*

Security of Income by Lease Expiry

Analysis of Rental Income by Region

The chart below shows our distribution of rent roll by NHS Region.

Rent Reviews by Annual Rent

The chart below shows the proportion of our rent roll falling due for review in the next three years. The year ending 30 June 2001 will see some £1.4 million of rents being reviewed.

PRIMARY HEALTH PROPERTIES PLC

Managing Director's Report *continued*

Portfolio Purchases During the Year

During the past year we have completed a number of purchases, which are set out in tabular form below:

Property	Acquisition Cost	Occupational Tenants
Aylesbury, Bucks.	£1.85m	Doctors, Pharmacy and Newsagent
Stotfold, Beds.	£0.98m	Doctors
West Timperley, Cheshire	£0.98m	Doctors
Pype Hayes, Birmingham	£1.63m	Doctors and Pharmacy
Tibshelf, Derbs.	£1.16m	Doctors and Pharmacy
Killick Street, London. N1	£1.18m	Doctors
Ritchie Street, London. N1	£1.10m	Doctors
Nottingham, Notts.	£1.14m	Doctors and Pharmacy
Ringwood, Hants.	£1.65m	Doctors and Pharmacy
TOTAL:	<u>£11.67m</u>	

Since the year end we have continued to enter into commitments to purchase new developments, including a doctors practice in the East Riding of Yorkshire.

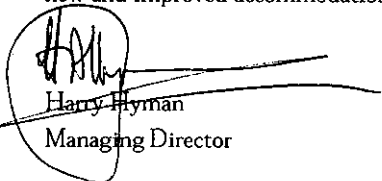
Funding

During the year we have continued to draw down on the banking facilities available to the Group. Bank borrowings at the year end totalled £25.5 million.

In addition to the existing £3 million three year SWAP, a five year SWAP of £10 million took effect from 1 July 1999. On 6 December 1999 the two SWAPs were combined with an expiry date of September 2004 at an interest rate of 5.78%.

Future Prospects

The conversion of Primary Care Groups into Primary Care Trusts over the forthcoming years will ensure a steady need for new properties, both on an individual Practice level and on a wider PCG/PCT level. Many PCT's will be taking over control of estates that are inefficient and ineffective for the provision of Primary Care. This creates opportunities for PHP to provide PCT's with new and improved accommodation in multiple lots as opposed to the current single entities.


Harry Hyman
Managing Director

25 September 2000

PRIMARY HEALTH PROPERTIES PLC

Directors and Advisers

Directors

Graeme Elliot, aged 58, Non-Executive Chairman. Mr Elliot was formerly executive vice chairman of Slough Estates PLC prior to which he held senior positions at Rio Tinto PLC. He is a director of a number of public companies.

Harry Hyman, aged 44, Managing Director. Mr Hyman is Managing Director of Nexus Structured Finance Limited of which Nexus Management Services Limited is a subsidiary. Mr Hyman is also a non-executive director of a number of other companies including Groupe Chez Gerard PLC, Aberdeen Preferred Income Investment Trust PLC, Aberdeen High Income Investment Trust PLC and Intrinsic Value PLC. Prior to setting up Nexus in 1994, Mr Hyman was finance director of Baltic PLC.

Adam Dalgliesh, aged 27, Property Director. Mr Dalgliesh is an Associate of the Royal Institution of Chartered Surveyors. He qualified with Lambert Smith Hampton where he was previously employed. He has been responsible for the property management of PHP's portfolio since 1996.

Martin Gilbert, aged 45, Non-Executive Director. Mr Gilbert is chief executive of Aberdeen Asset Management PLC, whose wholly-owned subsidiary Aberdeen Asset Managers Limited holds 22.39% of the issued share capital of Primary Health Properties PLC, and chairman of the group's operating subsidiaries. He is chairman of FirstGroup plc and a director of a number of investment trusts and of Lombard International Insurance SA.

William Hemmings, aged 35, alternate to Martin Gilbert. Mr Hemmings is a fund manager and director of Aberdeen Asset Managers Limited. He specialises in the fields of smaller company and property share investment. He is also a director of Criterion Properties Plc.

James Hambro, aged 51, Non-Executive Director. Mr. Hambro is chairman of J O Hambro Capital Management Limited manager and administrator to North Atlantic Smaller Companies Trust plc which holds 24.52% of the issued share capital of the Company. He is also chairman of Ashtenne Holdings PLC and a director of Capital Opportunities Trust PLC and Enterprise Capital Trust PLC.

Patrick Pietroni, aged 57, Non-Executive Director. Professor Pietroni is Post Graduate Dean of General Practice at London University, he was formerly a Director of the Centre for Community Care and Primary Health at the University of Westminster and has written widely on a number of medical topics.

Elodie Sandford, aged 59, Non-Executive Director. Mrs Sandford is a former executive chairman of High Tor Limited, a Cayman Islands company involved in the business of fund management. High Tor Limited holds 11.31% of the issued share capital of Primary Health Properties PLC. She is also a registered nurse, having trained in the Royal Victoria hospital in Montreal, Canada.

Managers

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

J O Hambro Capital Management Limited ('JOHCM') provides administrative and accounting services to the Company including acting as Company Secretary. J O Hambro Capital Management Limited provides investment management, administrative, accounting and company secretarial services to a number of listed investment trusts.

PRIMARY HEALTH PROPERTIES PLC

Report of the Directors

Introduction

The Directors have pleasure in presenting their report together with the audited accounts for the year ended 30 June 2000.

Results and Dividends

The profit for the financial year ended 30 June 2000 after taxation amounted to £1,116,000 (1999: £1,054,000). The Directors recommend the declaration of a final dividend of 3.6p per share (1999: 3.4p) in respect of the year ended 30 June 2000 to be paid on 23 November 2000 to Shareholders on the register at the close of business on 6 October 2000.

Principal Activity

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

Review of the Business and Future Activities

Please refer to the Chairman's Statement on page 3 and the Managing Director's Report on pages 4 to 6.

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

Treasury Activities and Policies

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

The Group's financial instruments comprise convertible loan stock and bank borrowings, some cash and liquid resources and other items such as trade debtors and creditors that arise directly from its operations. The Group does not engage in trades of a speculative nature.

Further details of financial instruments are given in note 14 to the financial statements. The Board reviews and agrees policies for managing each of the above mentioned risks. These are summarised below:

Interest rate Risk

The Group finances its operations through called up share capital, convertible loan stock, retained profits and bank borrowings. The Group then uses interest rate swaps and interest rate options to manage its exposure to interest rate fluctuations. At the year end 58% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (see note 14 of the financial statements).

Liquidity Risk

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

	<i>Amount</i>	<i>Maturity</i>
Convertible Loan Stock	£4m	2016
Bank borrowings	£30m	2005
Bank borrowings	£10m	364 days

At the year end the convertible loan stock was drawn in full and there was £25,500,000 drawn under the seven year bank facility.

Borrowings

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

PRIMARY HEALTH PROPERTIES PLC

Report of the Directors *continued*

Property Risk

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

Gearing

The maximum gearing currently available to the Group permitted under the Articles of Association is 65% of gross assets. Borrowing for this purpose excludes amounts outstanding under the convertible loan stock. The Board will be seeking the approval of the shareholders to increase the figure to 70% as explained on page 11 of this report.

Substantial Shareholdings

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

	No of Shares	% of Issued Share Capital
North Atlantic Smaller Companies Investment Trust PLC	3,850,000	24.52
Aberdeen Asset Managers Limited	3,515,000	22.39
Robert Fleming & Co	2,000,000	12.74
High Tor Limited	1,775,000	11.31

Directors

Details of the Directors who served during the year appear on page 7.

In accordance with article 104 of the Company's Articles of Association, Professor Patrick Pietroni and Mrs Sandford retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Interests

The interests of the Directors (all of which are beneficial) in the share capital of the Company as at 30 June 2000 and 1 July 1999 are set out below:

	2000 Ordinary Shares of 50p	1999 Ordinary Shares of 50p
G A Elliot	5,000	5,000
M J Gilbert	-	-
W J C Hemmings: (alternate to M J Gilbert)	-	-
J D Hambro	10,000	10,000
H A Hyman	26,000	26,000
P C Pietroni	-	-
E C Sandford	-	-
A D S Dalgliesh	5,000	5,000

There were no changes in the above interests between 30 June and 22 September 2000.

The Company has a joint Management Agreement with NMS for the provision of certain services in relation primarily to the purchase and monitoring of the Company's properties and with JOHCM for the provision of certain administrative, accounting and company secretarial services, further details of which are set out in note 6 to the accounts. This management agreement was updated and renewed by the Board and a further management agreement dated 17 July 2000 was signed.

PRIMARY HEALTH PROPERTIES PLC

Report of the Directors *continued*

Mr Hyman is a director of NMS and a director and shareholder of Nexus Structured Finance Limited, of which NMS is a wholly owned subsidiary. Mr. Hambro is a director and shareholder of JOHCM. Messrs. Hyman and Hambro are therefore deemed to have an interest in the above contract.

Mrs E C Sandford was until 1 November 1999 executive chairman of High Tor Limited, which holds 11.31% of the issued share capital of Primary Health Properties PLC.

Mr M J Gilbert is the Chief Executive of Aberdeen Asset Management PLC and a director of Aberdeen Asset Managers Limited, its wholly owned subsidiary, which holds 22.39% of the issued share capital of Primary Health Properties PLC.

Mr W C Hemmings (alternate to Mr Gilbert) is also a director of Aberdeen Asset Managers Limited.

Pursuant to an Option Agreement between the Company, NMS and JOHCM dated 14 March 1996, NMS and JOHCM have been granted options to subscribe for a total of 1.6 million ordinary shares in the Company in the proportion of 960,000 to NMS and 640,000 to JOHCM, further details of which are set out in note 15 to the accounts. Messrs Hyman and Hambro are deemed to have an interest in this agreement.

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

Creditor Payment Policy

It is the Group policy to settle suppliers' accounts in accordance with their individual terms of business. As at 30 June 2000 the Company had £1,406,000 of trade creditors representing 44 creditor days (1999: £642,000 and 30 days).

Share Buy-Back Policy

At the Annual General Meeting on 15 December 1999 a Special Resolution was approved by Shareholders, renewing the authority to make market purchases of ordinary shares of 50p up to a maximum of 1,570,000 ordinary shares or 10% of the then issued share capital. The Company has in the current period not bought back any ordinary shares (1999: 300,000 ordinary shares).

Resolution 8 on pages 32 and 33 renews the authority from Shareholders for the Company to purchase up to 1,570,000 ordinary shares, an aggregate nominal amount of £785,000, which is equivalent to approximately 10% of the Company's issued ordinary share capital. The authority will expire at the end of next year's annual general meeting. The Directors envisage seeking the renewal of this authority in each succeeding year. This resolution, if passed, will give the Company the authority to purchase its own shares within guidelines established from time to time by the Board. Under the rules of the Financial Services Authority, the maximum price which may be paid is 5% above the average of the market values of the Ordinary Shares for the five business days before the purchase is made. The minimum price payable will be 50p, being the nominal value of each Ordinary Share. Ordinary Shares which are purchased will be cancelled. Purchases will be funded by using available reserves. No Ordinary Shares will be purchased by the company during periods when the Company would be prohibited from making such purchases by the rules of the Financial Services Authority. Investment opportunities, appropriate gearing levels and the overall financial position of the Company will be taken into account before deciding upon exercising the authority to buy-back shares. The Directors intend to exercise the power of repurchasing shares only when they believe the effect of such purchases will increase the underlying value of each share.

Authority to Allot Shares and Disapply Pre-emption Rights

At the Annual General Meeting on 15 December 1999 a Special Resolution was approved by Shareholders to authorise the Directors to allot shares up to an aggregate nominal amount of £2,616,667 in the period of five years from the date of the passing of the resolution. This represents 5,233,334 ordinary shares of 50p each and is equivalent to approximately 33% of the

PRIMARY HEALTH PROPERTIES PLC

Report of the Directors *continued*

Company's current issued ordinary share capital. The Directors have no present intention of issuing any of the authorised but unissued ordinary shares of the Company. This authority will be renewed at the next annual general meeting held following the passing of the resolution.

The Directors were also given authority to allot shares for cash without first offering them to existing members up to an aggregate nominal amount of £392,500.

This sum represents 785,000 ordinary shares of 50p each, being equivalent to 5% of the current issued share capital. The directors will use such authority in the circumstances where it is in the best interests of the Company to issue small amounts of shares other than to existing shareholders. The authority given also enables the directors to modify the strict requirements for a rights issue in circumstances where they consider it necessary or expedient. The authority will be renewed at the next annual general meeting of the Company held following the date of the passing of the resolution in accordance with the pre-emption guidelines of institutional shareholders.

Borrowing Powers

Under the provisions of the Company's Articles of Association, the Board is currently required to restrict the level of the Company's borrowings to a sum equal to 65% of the greater of the current value of all assets and their book value. In order to take advantage of the borrowing facilities now available to the company, which it is hoped will allow expansion of the portfolio to approximately £100 million in value in due course, the Board will be seeking shareholders' approval by way of a Special Resolution at the annual general meeting to amend the Articles of Association to allow this percentage to be increased to 70% from 65%. The Directors believe that this Special Resolution, which if passed will raise the allowable level of borrowings to an amount equal to 70% of the greater of the value of the assets and their book value, is in the best interests of the Company. The Directors therefore recommend you to vote in favour of the Special Resolution at the Annual General Meeting.

Auditors

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

By Order of the Board

JH JO Hambro Capital Management Limited
Company Secretary *RJB*

25 September 2000

PRIMARY HEALTH PROPERTIES PLC

Corporate Governance

Directors' Statement of Compliance with the Combined Code

The principles

The Board has carried out a full review of the principles of good governance and the code of best practice (the 'Combined Code') prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel. To ensure that the appropriate level of corporate governance is attained, the Board has confirmed that arrangements are in place to enable compliance with Section 1 of the Combined Code, as required by Listing Rule 12.43A issued by the Financial Services Authority.

Compliance with the Combined Code

The Board considers that the Company has complied with the provisions of Section 1 of the Combined Code throughout the period ended 30 June 2000, other than those relating to internal control, for which a transitional approach has been adopted, and relating to section A.2.1 of the code as described below with regard to the appointment of a senior non-executive director.

The Directors are responsible for overseeing the effectiveness of the internal financial control systems for the Company, which are designed to ensure that proper accounting records are maintained, that the financial information on which the business decisions are made and which are issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors, through the procedures outlined below, have kept under review throughout the period covered by these financial statements, the effectiveness of the system of internal financial control.

The Combined Code also requires the Directors to review the effectiveness of the Company's system of internal controls, extending the previous focus on financial aspects to encompass all controls. The Board has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and company secretarial as areas for the extended review.

The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. However, the Turnbull Report, the formal guidance for the review of non-financial internal controls, was only published in September 1999. Consequently, as permitted by the Financial Services Authority, the Company has adopted the transitional approach for the internal control aspects of the Combined Code.

The Board has undertaken a review of the aspects covered by the Turnbull guidance and believes that the existing arrangements, whereby the Board receives regular reports on all aspects of internal control (including financial, operational and compliance controls, risk management, and relationships with external service providers), represents an appropriate framework substantially in place to meet the requirements of the Combined Code. The Board's monitoring process will be finalised to enable full compliance for the year ending 30 June 2001.

Directors

The Board consists of seven members, four of whom are non-executive and independent of the Managers. Particulars of Directors are set out on page 7. Your Board has considered the need to appoint a senior independent director but believes this is not necessary as the majority of the Directors, including the Chairman, are independent.

The Directors normally meet as a Board on a quarterly basis. The Board lays down guidelines within which the Managers implement investment policy and has a schedule of matters reserved for resolution of the Directors.

A full report on the properties and performance is received from the Managers at Board meetings. The Managers also report regularly to the Board on the Company's financial position.

The Board as a whole fulfils the function of a nomination committee. The Company's Articles of Association require newly appointed Directors to submit themselves for election by Shareholders at the next Annual General Meeting and for all Directors to be re-elected at least once every three years.

PRIMARY HEALTH PROPERTIES PLC

Corporate Governance *continued*

Directors' remuneration

Messrs Elliot, the chairman of the committee, Pietroni and Gilbert and Mrs Sandford comprise the Engagement Committee. This committee reviews the terms, including fees and other remuneration payable to Nexus Management Services Limited and J O Hambro Capital Management Limited set out in note 6 to the Accounts, on a regular basis. Nexus Management Services Limited and J O Hambro Capital Management Limited also have options exercisable over the shares of the Company as set out in note 15 to the financial statements.

Shareholder relations

The Company, through the Managers, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private investors.

The Directors' responsibilities with regard to the financial statements are set out below.

Accountability and Audit

The Company's Audit Committee, which comprises Messrs Elliot, the chairman of the committee, Pietroni and Gilbert and Mrs Sandford, all of the independent non-executive Directors, meets representatives of the Managers, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Managers operate. The Company's external auditors also attend the Committee at its request, at least once a year, and comment on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include review of internal financial controls, accounting policies, financial statements, the management contract, the appointment, remuneration and scope and objectivity of the Auditor. In view of the fact that the Company's operational and accounting activities are dealt with by external managers, the Directors do not consider the creation of a separate internal audit function to be appropriate.

The Company Secretary

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

Independent professional advice

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

Internal financial controls

The Directors acknowledge that they are responsible for the Group's system of financial controls. The Board meets regularly and reviews performance and financial returns against approved budgets and forecasts. In addition, the Managers maintain their own systems of internal financial controls. Reports are produced annually on the internal controls and procedures in place for the operation of the property management and accounting activities. The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system of internal financial control that has been in operation over the year.

PRIMARY HEALTH PROPERTIES PLC

Corporate Governance *continued*

Going concern

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

Statement of Directors' Responsibilities

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

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

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

PRIMARY HEALTH PROPERTIES PLC

Report of the Auditors

to the Members of Primary Health Properties PLC

We have audited the accounts on pages 16 to 31 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 20 and 21.

Respective Responsibilities of Directors and Auditors

As described on page 14 the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 12 to 14 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report including the corporate governance statement and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

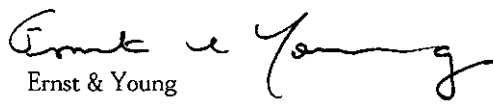
Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
London

25 September 2000

Consolidated Profit and Loss Account

for the year ended 30 June 2000

		30 June 2000 £'000	30 June 1999 £'000
	<i>Notes</i>		
Turnover	2	3,691	2,391
Administrative expenses – non-exceptional item	6	(903)	(626)
– exceptional item	3	-	(104)
		<u>(903)</u>	<u>(730)</u>
Operating profit		2,788	1,661
Interest receivable	5	85	245
Interest payable	4	(1,633)	(945)
		<u>1,240</u>	<u>961</u>
Profit on ordinary activities before taxation		1,240	961
Corporation tax	7	(124)	93
		<u>1,116</u>	<u>1,054</u>
Profit on ordinary activities after taxation		1,116	1,054
Interim dividend of 3.4p per share (1999: 2.6p)		(534)	(416)
Final dividend proposed of 3.6p (1999: 3.4p)		(565)	(534)
		<u>17</u>	<u>104</u>
Profit retained for the period		17	104
Net profit after tax for the period retained by:			
The Company		9	(12)
Subsidiary undertakings (after declaring dividends of £3,496,000)		8	116
		<u>17</u>	<u>104</u>
Earnings per share – basic	8	7.1p	6.6p
– diluted		7.0p	6.6p
Dividends per share (net)		7.0p	6.0p
Increase in net asset value per share		12.3p	10.4p
Total return per share		<u>19.3p</u>	<u>16.4p</u>

All activities are continuing.

Statement of Total Recognised Gains and Losses

for the year ended 30 June 2000

	30 June 2000 £'000	30 June 1999 £'000
Profit for the financial year	1,116	1,054
Unrealised surplus on revaluation of properties	1,912	1,505
Total gains and losses relating to the year	<u>3,028</u>	<u>2,559</u>

All activities are continuing.

The notes on pages 20 to 31 form part of these accounts.

Consolidated Balance Sheet

as at 30 June 2000

	Notes	At 30 June 2000 £'000	At 30 June 1999 £'000
Fixed assets			
Tangible assets	9	49,318	35,640
Investments: development loans		10	901
		<u>49,328</u>	<u>36,541</u>
Current assets			
Debtors	11	568	483
Net investment in finance leases: amounts falling due in more than one year		2,498	2,510
Cash at bank		389	201
		<u>3,455</u>	<u>3,194</u>
Creditors: amounts falling due within one year	12	<u>(2,920)</u>	<u>(1,801)</u>
Net current assets		<u>535</u>	<u>1,393</u>
Total assets less current liabilities		<u>49,863</u>	<u>37,934</u>
Creditors: amounts falling due after more than one year			
Term loan	13	(25,500)	(15,500)
Convertible loan stock 2016	13	(4,000)	(4,000)
		<u>(29,500)</u>	<u>(19,500)</u>
		<u>20,363</u>	<u>18,434</u>
Capital and reserves			
Called up share capital	15	7,850	7,850
Share premium account	16	5,810	5,810
Capital reserve	17	1,618	1,618
Revaluation reserve	18	4,872	2,960
Profit and loss reserve	19	213	196
Equity shareholders funds	20	<u>20,363</u>	<u>18,434</u>
Net asset value per share		<u>129.70p</u>	<u>117.4p</u>

These accounts were approved by the Board of Directors on 25 September 2000 and signed on its behalf by:



G A Elliot (Chairman)

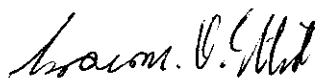
The notes on pages 20 to 31 form part of these accounts.

Company Balance Sheet

as at 30 June 2000

	<i>Notes</i>	At 30 June 2000 £'000	At 30 June 1999 £'000
Fixed assets			
Investment in subsidiaries	10	45,151	34,481
Investments: development loans		10	901
		<u>45,161</u>	<u>35,382</u>
Current assets			
Debtors	11	508	299
Cash at bank		32	–
		<u>540</u>	<u>299</u>
Creditors: amounts falling due within one year	12	(897)	(886)
Net current liabilities		<u>(357)</u>	<u>(587)</u>
Total assets less current liabilities		44,804	34,795
Creditors: amounts falling due after more than one year			
Term loan	13	(25,500)	(15,500)
Convertible loan stock 2016	13	(4,000)	(4,000)
		<u>(29,500)</u>	<u>(19,500)</u>
		<u>15,304</u>	<u>15,295</u>
Capital and reserves			
Called up share capital	15	7,850	7,850
Share premium account	16	5,810	5,810
Capital reserve	17	1,618	1,618
Profit and loss account	19	26	17
Equity shareholders funds	20	<u>15,304</u>	<u>15,295</u>

These accounts were approved by the Board of Directors on 25 September 2000 and signed on its behalf by:



G A Elliot (Chairman)

The notes on pages 20 to 31 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 30 June 2000

	<i>Notes</i>	30 June 2000 £'000	30 June 1999 £'000
Net cash inflow from operating activities	21	<u>3,037</u>	<u>2,467</u>
Returns on investments and servicing of finance			
Interest received		27	53
Interest paid		<u>(1,545)</u>	<u>(919)</u>
		<u>(1,518)</u>	<u>(866)</u>
Taxation			
UK corporation tax paid		(9)	(211)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(10,254)	(7,410)
Development loans advanced		-	(6,664)
		<u>(10,254)</u>	<u>(14,074)</u>
Equity dividends paid		<u>(1,068)</u>	<u>(912)</u>
Net cash outflow before financing		<u>(9,812)</u>	<u>(13,596)</u>
Financing			
Repurchase of shares		-	(292)
Term bank loan 2005		<u>10,000</u>	<u>13,500</u>
		<u>10,000</u>	<u>13,208</u>
Increase/(decrease) in cash		<u>188</u>	<u>(388)</u>
		2000	1999
Reconciliation of net cash flow to movement in net debt		£'000	£'000
Increase/(decrease) in cash in the period		188	(388)
Cash inflow from loans		<u>(10,000)</u>	<u>(13,500)</u>
Movement in net debt in the period		<u>(9,812)</u>	<u>(13,888)</u>
Net debt at 1 July	21	<u>(19,299)</u>	<u>(5,411)</u>
Net debt at 30 June	21	<u>(29,111)</u>	<u>(19,299)</u>

The notes on pages to 20 to 31 form part of these accounts.

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

1 Accounting policies

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

Basis of preparation

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

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

Basis of consolidation

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

Investment properties

All the Group's completed properties are held for long-term investment. Investment properties are carried at open market value and are accounted for in accordance with SSAP 19, as follows:

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

Properties held for or in the course of development

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

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

Recognition of income

Rental income is included in these accounts on a receivable basis.

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

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation

balance

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Investment in subsidiaries

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

Development loans

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

Derivative instruments

The Group uses interest swaps to adjust interest rate exposures.

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

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

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

Finance leases

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

2 Turnover

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

	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
Rental and fee income	3,450	2,246
Finance lease income	241	145
	<u>3,691</u>	<u>2,391</u>

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

3	Exceptional item	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
	Costs of move to main market and of obtaining share repurchase authority	-	104
		<u> </u>	<u> 104</u>
4	Interest payable	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
	Loan stock interest	310	310
	Bank term loan interest	1,320	634
	Other	3	1
		<u> </u>	<u> 1</u>
		<u>1,633</u>	<u> 945</u>
5	Interest receivable	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
	Bank interest	33	53
	Development loan interest	52	192
		<u> </u>	<u> 192</u>
		<u>85</u>	<u> 245</u>
6	Operating profit is stated after charging	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
	Management fee (i)	433	310
	Directors' fees (ii)	75	55
	Property management fees	35	22
	Bank non-utilisation fees	38	62
	Auditors' remuneration – for audit services	20	20
	– for other services	11	26
	General expenses	291	131
		<u> </u>	<u> 131</u>
		<u>903</u>	<u> 626</u>

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

6 Operating profit is stated after charging (continued)

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

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

	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
J O Hambro Capital Management Limited	199	145
Nexus Management Services Limited	234	165
	<u>433</u>	<u>310</u>

J O Hambro Capital Management Limited also acts as Secretary to the Company.

As at 30 June 2000 £54,033 of management fees payable to J O Hambro Capital Management Limited was outstanding (1999: £74,628), and £2,650 was payable to Nexus Management Services Limited (1999: £nil).

	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
(ii) Directors' fees:		
Total fees	<u>75</u>	<u>55</u>

There were no staff costs.

(iii) Remuneration of Directors:

	Year ended 30 June 2000 £	Year ended 30 June 1999 £
Mr G A Elliot (Chairman)	15,000	12,500
Mr H A Hyman (Managing Director)	10,000	7,500
Mr J D Hambro	10,000	7,500
Mr M Gilbert	10,000	7,500
Mr P Pietroni	10,000	7,500
Mrs E Sandford	10,000	7,500
Mr A Dalgliesh	<u>10,000</u>	<u>5,000</u>

Mr J D Hambro is also chairman and an indirect shareholder of J O Hambro Capital Management Limited.

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

6 Operating profit is stated after charging (continued)

The directors fees for Mr H A Hyman and Mr A Dalgliesh were paid to Nexus Management Services Limited. Mr Hyman's family interests are the controlling shareholder of Nexus Management Services Limited. The Company also paid to Nexus Management Services Limited the £35,000 (1999: £22,000) property management fees shown on page 22.

7 Taxation	Year ended 30 June 2000 £'000	Year ended 30 June 1999 £'000
UK corporation tax	96	-
Under/(over)-provision in respect of previous periods	28	(93)
	<u>124</u>	<u>(93)</u>

The tax credit in 1999 arose due to the availability of capital allowances on investment properties which are not depreciated.

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Capital allowances in advance of depreciation	-	-	1,037	660
Unrealised gains on revaluation reserve	-	-	1,127	553
	<u>-</u>	<u>-</u>	<u>2,164</u>	<u>1,213</u>

8 Earnings per share

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

	As at 30 June 2000		As at 30 June 1999	
	Net profit attributable to ordinary shareholders £'000	Ordinary shares '000	Net profit attributable to ordinary shareholders £'000	Ordinary shares '000
Basic earnings per share	1,116	15,700†	1,054	15,977†
Option conversion*	-	182	-	-
Diluted earnings per share	<u>1,116</u>	<u>15,882</u>	<u>1,054</u>	<u>15,977</u>

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

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

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

9 Tangible fixed assets

As at 30 June 2000

	Property in		Development	
	the course of development £'000	Investment properties £'000	Total £'000	loans £'000
Freehold properties				
Group:				
Cost or valuation at 1 July 1999	1,136	34,504	35,640	901
Additions at cost	8,266	2,557	10,823	52
Disposals at cost	-	-	-	-
Transfer	(8,454)	9,397	943	(943)
Revaluation for the year	-	1,912	1,912	-
As at 30 June 2000	<u>948</u>	<u>48,370</u>	<u>49,318</u>	<u>10</u>

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

The historical cost of properties held by investment subsidiaries including property in the course of development was £44.45 million (1999: £32.68 million).

10 Investments

Investment in subsidiaries

	Shares	Loans	Total
	£'000	£'000	£'000
At 1 July 1999	187	34,294	34,481
Loans to subsidiary during the year	-	10,670	10,670
At 30 June 2000	<u>187</u>	<u>44,964</u>	<u>45,151</u>

The principal subsidiaries of the Company are stated below:

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

All of the principal subsidiaries are directly held and are all incorporated in England and Wales.

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

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

11 Debtors	2000		1999	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	183	-	232	-
VAT recoverable	286	449	88	211
Other debtors	-	-	92	17
Prepayments	99	59	55	55
ACT recoverable	-	-	16	16
	<u>568</u>	<u>508</u>	<u>483</u>	<u>299</u>

12 Creditors: amounts falling due within one year	2000		1999	
	Group £'000	Company £'000	Group £'000	Company £'000
Rents received in advance	849	-	625	-
Other creditors and accruals	1,406	332	642	324
Taxation	100	-	-	-
Proposed dividend	565	565	534	534
Bank overdraft	-	-	-	28
	<u>2,920</u>	<u>897</u>	<u>1,801</u>	<u>886</u>

13 Creditors: amounts falling due after more than one year

The term loan repayable in 2005 is secured by an unlimited guarantee from each subsidiary and a first fixed charge over the ownership of each property. The loan facility was increased to £30 million from £20 million on 24 February 2000. Interest is payable on the loan at a fixed percentage rate above LIBOR, this has fluctuated in the year between 5.9126% and 7.1895%. However, the Company has taken out interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 14 below.

The Convertible Loan Stock 2016 was issued in units of £250,000. The loan stock units are redeemable at par on 31 March 2016, unless previously converted at the option of the holder. The loan stock is convertible into ordinary shares of 50p each at the rate of one 50p ordinary share for every unit of £1.15 in nominal value of the stock tendered for conversion. In the event of the winding up of the Company Loan Stock held by the stockholder will become immediately repayable at par together with accrued interest. Interest is payable at the rate of 7.75% half yearly on 31 March and 30 September each year.

14 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found on pages 8 and 9. The disclosures below exclude short term debtors and creditors.

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

14 Derivatives and other financial instruments (continued)

Interest rate risk profile of financial liabilities

	Total £'000	Floating rate £'000	Fixed rate £'000	Non- interest bearing £'000
As at 30 June 2000	29,500	12,500	17,000	-
As at 30 June 1999	19,500	2,500	17,000	-

The fixed rate profile above includes a £13 million interest rate swap. This swap became effective on 6 December 1999 when the existing £3 million and £10 million swaps were combined.

	Weighted average interest rate %	Fixed rate Weighted average period for which rate is fixed years
As at 30 June 2000	6.24	7
As at 30 June 1999	6.72	8

The floating rate liabilities bear interest at a rate of LIBOR plus associated costs.

Interest rate profile of financial assets

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

	Financial assets			
	Total £'000	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000
As at 30 June 2000	2,887	2,498	389	-
As at 30 June 1999	2,711	2,510	201	-

Floating rate financial assets comprise cash at bank on which interest is earned at monthly rates. The interest on the fixed rate financial asset is 10.25% which will increase at a fixed rate of 2.5% per annum until maturity. The weighted average period for financial assets on which fixed rate interest is paid is 33 years (1999: 34 years).

The fixed rate financial asset matures in more than five years. The floating rate financial assets mature in less than one year.

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

14 Derivatives and other financial instruments (continued)

Maturity of financial liabilities	2000 £'000	1999 £'000
The maturity profile of the Group's financial liabilities at 30 June was as follows:		
In one year or less, or on demand	-	-
In more than one year but not more than two	-	-
In more than two years, but no more than five	25,500	-
In more than five years	4,000	19,500
	<u>29,500</u>	<u>19,500</u>

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 30 June in respect of which all conditions precedent had been met at that date are as follows:

	2000 £'000	1999 £'000
Expiring in one year or less	10,000	10,000
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	4,500	4,500
	<u>14,500</u>	<u>14,500</u>

Fair values of financial assets and financial liabilities

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

	Book value 2000 £'000	Fair value 2000 £'000	Book value 1999 £'000	Fair value 1999 £'000
Primary financial instruments:				
Short term creditors	(2,920)	(2,920)	(1,801)	(1,801)
Long term borrowings	(25,500)	(25,500)	(15,500)	(15,500)
Convertible loan stock	(4,000)	(4,000)	(4,000)	(4,000)
Short term debtors	282	282	380	380
Long term debtors	2,498	2,498	2,510	2,510
Cash	389	389	201	201
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	-	300	-	506
	<u>-</u>	<u>300</u>	<u>-</u>	<u>506</u>

Market values have been used to determine the fair value of interest rate swaps. The fair value of the convertible loan stock and finance leases has been determined by the Directors. The difference between the book value and market value where the market value is higher than the book value is not disclosed as its determination is not practicable.

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

14 Derivatives and other financial instruments (continued)

Hedging strategy

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

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

	Gains £'000	Losses £'000	Total £'000
Gains and losses unrecognised as at 30 June 2000	300	-	300
Gains and losses unrecognised as at 30 June 1999	506	-	506

The average interest rate differential for the year between the interest rate swap and the LIBOR floating rate was 0.08%. The differential at the year end was 0.28%. Both of these were in the Company's favour.

15 Called up share capital

	2000		1999	
	Number '000	£'000	Number '000	£'000
Authorised:				
Ordinary shares of 50p each	40,000	20,000	40,000	20,000
Issued and fully paid at 50p each	15,700	7,850	15,700	7,850

Pursuant to an option agreement dated 14 March 1996, NMS and JOHCM Limited have been granted options to subscribe for a total of 1.6 million shares in the Company in the proportion of 960,000 shares to NMS and 640,000 shares to JOHCM at a subscription price of £1 per share. These options are exercisable at any time after publication of the audited accounts of the Company for the financial year ended 30 June in the year immediately preceding the proposed date of exercise provided that, on the basis of those accounts, the net asset value per share (adding back all gross dividends paid on each share) has increased since the date of admission of securities to the official list at a rate in excess of the equivalent compound growth rate of 10%, and subject to the Managers remaining advisors at the date of exercise. As at 30 June 2000 these conditions have been met.

16 Share premium account

	2000		1999	
	Group £'000	Company £'000	Group £'000	Company £'000
Balance at beginning of year	5,810	5,810	7,570	7,570
Transfer to capital reserves	-	-	(1,760)	(1,760)
Balance at end of year	5,810	5,810	5,810	5,810

During the year ended 30 June 1999 the Company obtained an order of the court to reduce its share premium account from £7.57 million to £5.81 million, which was registered by the Registrar of Companies. This amount was credited to a

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

17	Capital reserve	2000		1999	
		Group £'000	Company £'000	Group £'000	Company £'000
	Balance at beginning of year	1,618	1,618	-	-
	Transfer from share premium account	-	-	1,760	1,760
	Reserve utilised on share repurchase	-	-	(142)	(142)
	Balance at end of year	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>	<u>1,618</u>
18	Revaluation reserve			2000	1999
				£'000	£'000
	Balance at beginning of year			2,960	1,455
	Uplift in valuation during the year			1,912	1,505
	Balance at end of year			<u>4,872</u>	<u>2,960</u>
19	Profit and loss reserve	2000		1999	
		Group £'000	Company £'000	Group £'000	Company £'000
	Balance at beginning of year	196	17	92	29
	Retained profit/(loss) for the year	17	9	104	(12)
	Balance at end of year	<u>213</u>	<u>26</u>	<u>196</u>	<u>17</u>
20	Reconciliation of shareholders' funds	2000		1999	
		Group £'000	Company £'000	Group £'000	Company £'000
	Opening shareholders' funds	18,434	15,295	17,117	15,599
	Increase in revaluation reserve	1,912	-	1,505	-
	Profit for the year	1,116	1,108	1,054	938
	Dividends paid and proposed	(1,099)	(1,099)	(950)	(950)
	Share capital repurchased in year	-	-	(150)	(150)
	Reserve utilised on share repurchase	-	-	(142)	(142)
	Closing shareholders' funds	<u>20,363</u>	<u>15,304</u>	<u>18,434</u>	<u>15,295</u>

PRIMARY HEALTH PROPERTIES PLC

Notes to the Accounts

21 Notes to the statement of cash flow

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

	2000	1999
	£'000	£'000
Operating profit	2,788	1,661
(Increase)/decrease in operating debtors and prepayments	(101)	549
Increase in operating creditors and accruals	350	257
Net cash inflow from operating activities	<u>3,037</u>	<u>2,467</u>

Cash flow relating to operating exceptional items

Net cash inflow from operating activities in the year ended 30 June 1999 included cash outflows of £104,000 in respect of expenses incurred with the move to the main market and acquiring authority for the share repurchase.

(b) Analysis of net debt

	Opening	2000 Cashflow	Closing
	£'000	£'000	£'000
Cash at bank	201	188	389
Bank loans	(15,500)	(10,000)	(25,500)
Convertible loan stock	(4,000)	-	(4,000)
	<u>(19,299)</u>	<u>(9,812)</u>	<u>(29,111)</u>

22 Capital commitments

Primary Health Investment Properties Limited, a wholly owned subsidiary of the Company, has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of approximately £5.4 million plus VAT (1999: £6.7 million plus VAT).

23 Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £7.8 million (1999: £6.7 million).

24 Related party transactions

Details of related party transactions are provided in the Report of the Directors on pages 9 and 10 and in note 6 on pages 22 to 24.

PRIMARY HEALTH PROPERTIES PLC

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Primary Health Properties PLC will be held on 22 November 2000 at 12 noon at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the following purposes:

As Ordinary Business

1. To receive and adopt the report of the Directors and Auditors and the audited accounts for the year ended 30 June 2000;
2. To declare a final dividend of 3.6p per share;
3. To re-elect Professor Patrick Pietroni as a Director of the Company;
4. To re-elect Mrs E Sandford as a Director of the Company;
5. To re-appoint Ernst & Young as Auditors and authorise the Directors to fix their remuneration.

As Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions: except number 6 which will be proposed as an Ordinary Resolution.

6. THAT the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Companies Act 1985 ("the Act")) up to an aggregate nominal amount of £2,616,667 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the directors pursuant to Section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
7. THAT, subject to and conditional upon the passing of resolution number 6 set out in the notice of the meeting, the directors be empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements or other arrangements as the directors as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and
 - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £785,000.

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

8. THAT the Company be generally and unconditionally authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 50p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the directors may from time to time determine to

PRIMARY HEALTH PROPERTIES PLC

Notice of Annual General Meeting

- (a) the maximum number of Ordinary Shares authorised to be purchased is 1,570,000;
 - (b) the minimum price which may be paid for an Ordinary Share is 50p (the nominal value) (exclusive of expenses (if any) payable by the Company);
 - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased (exclusive of expenses (if any) payable by the Company); and
 - (d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.
9. THAT article 102 of the Articles of Association of the Company be altered by deleting the figure "65" and replacing it with the figure "70".

By order of the Board

Registered Office:

J O Hambro Capital Management Limited
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

J O J O Hambro Capital Management Limited
Company Secretary *R. Kuttel*
25 September 2000

Notes

1. Any member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. To be valid, completed forms must be received at the offices of the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.
3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the annual general meeting for 15 minutes prior to and during the meeting:
 - (a) the register of Directors' interests (and their families) in shares of the Company;
 - (b) copies of Directors' service contracts (other than contracts expiring or determinable by the Company in less than one year).
4. The Company specifies, pursuant to Regulations 34 of the Uncertificated Securities Regulations 1995, that only those shareholders registered in the register of members of the Company as at 6pm on 20 November 2000 shall be entitled to attend or vote at the general meeting respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

PRIMARY HEALTH PROPERTIES PLC

Corporate Profile

Directors

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

Joint Managers

Nexus Management Services Limited
Alexandra House
Alexandra Terrace
Guildford GU1 3DA
01483 306192

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

Registrars

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial Adviser and Stockbroker

West LB Panmure Limited
New Broad Street House
34 New Broad Street
London EC2M 1SQ

Solicitors

Nabarro Nathanson
50 Stratton Street
London W1X 6NX

Auditors

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Company Secretary and Registered Office

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

Bankers

The Royal Bank of Scotland plc
Waterhouse Square
138-142 Holborn
London EC1N 2TH

PRIMARY HEALTH PROPERTIES PLC

Form of Proxy

Name(s) in full
(BLOCK LETTERS PLEASE)

I/We, the undersigned, being (a) member(s) of the above Company, hereby appoint the Chairman of the Meeting
or see note 3)
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on
22 November 2000 and at any adjournment thereof, in the following manner:

- | | FOR* | AGAINST* | |
|----|--------------------------|--------------------------|---|
| 1. | <input type="checkbox"/> | <input type="checkbox"/> | The resolution to receive the Report and Accounts for the year ended 30 June 2000. |
| 2. | <input type="checkbox"/> | <input type="checkbox"/> | The resolution to declare a final dividend of 3.6p per share. |
| 3. | <input type="checkbox"/> | <input type="checkbox"/> | The resolution to re-elect Professor Patrick Pietroni a Director of the Company. |
| 4. | <input type="checkbox"/> | <input type="checkbox"/> | The resolution to re-elect Mrs E Sandford a Director of the Company. |
| 5. | <input type="checkbox"/> | <input type="checkbox"/> | The resolution to re-appoint Ernst & Young as Auditors and authorise the Directors to fix their remuneration. |
| 6. | <input type="checkbox"/> | <input type="checkbox"/> | The Ordinary Resolution authorising the Company to allot equity securities. |
| 7. | <input type="checkbox"/> | <input type="checkbox"/> | The Special Resolution to disapply pre-emption rights when issuing equity securities. |
| 8. | <input type="checkbox"/> | <input type="checkbox"/> | The Special Resolution authorising the Company to make market purchases of Ordinary shares. |
| 9. | <input type="checkbox"/> | <input type="checkbox"/> | The Special Resolution amending the Articles of Association to increase the limit on gearing. |

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

As WITNESS my/our hand(s) this day of 2000.

Signature

NOTES:

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