

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under Financial Services and Markets Act 2000 ("FSMA") if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.**

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please send this document together with the Form of Proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of the registration or any other local securities laws or regulations.



Primary Health Properties

# Primary Health Properties PLC

*(Incorporated in England & Wales under the Companies Act 1985 with registered number 03033634)*

**Proposed acquisition of Prime Public Partnerships (Holdings) Limited, issue of up to 13,326,624 new Ordinary Shares in connection with the proposed acquisition, application for admission of up to 13,326,624 new Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities**

**and**

## Notice of General Meeting

**Numis**  
Securities

**Numis Securities Limited**

Sponsor, joint financial adviser and joint broker

**PEEL HUNT**

**Peel Hunt LLP**

Joint financial adviser and joint broker

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**The whole of this document (in particular the section headed "Risk Factors" set out in pages 15 to 22 (inclusive) of this document) should be read together with the documents incorporated by reference in their entirety. In particular, you should take account of the section entitled "Risk Factors" of this document for a discussion of the risks that might affect the value of your shareholding in the Company. You should not rely solely on information summarised in the summary.**

This document, which comprises: (a) a circular prepared in compliance with the Listing Rules of the Financial Conduct Authority for the purposes of the General Meeting convened pursuant to the Notice of General Meeting contained in this document; and (b) a prospectus relating to the Acquisition and the Consideration Shares prepared in accordance with the Prospectus Rules of the Financial Conduct Authority made under Section 73A of FSMA, has been approved by the Financial Conduct Authority (the "FCA") in accordance with Section 85 of FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

The Company and each of the Directors, whose names appear on page 27 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Existing Ordinary Shares are listed on the premium listing segment of the Official List of the Financial Conduct Authority and admitted to trading on the London Stock Exchange's main market for listed securities. Application will be made to the Financial Conduct Authority and to the London Stock Exchange for the Consideration Shares to be admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange, respectively. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the Initial Consideration Shares will commence at 8.00 a.m. on 3 December 2013. No application is currently intended to be made for the Existing Ordinary Shares or the Consideration Shares to be admitted to listing or dealing on any other exchange.

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Numis Securities Limited (“Numis”), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for PHP and no-one else in connection with the Acquisition and Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Acquisition or Admission and will not be responsible to anyone other than PHP for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or Admission or any matters referred to in this document.

Peel Hunt LLP (“Peel Hunt”) which is authorised and regulated in the United Kingdom by the FCA, is acting solely for PHP in relation to the Acquisition and Admission and no one else and will not be responsible to anyone other than PHP for providing the protections afforded to clients of Peel Hunt nor for providing advice in relation to the Acquisition or Admission or any matters referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on Numis by FSMA or the regulatory regime established thereunder, Numis does not accept any responsibility whatsoever for, or make any warranty or representation, express or implied, in respect of, the contents of this document, including its accuracy, completeness or verification or concerning any other statement made or purported to be made by it, or on its behalf, in connection with PHP, the Consideration Shares, the Acquisition or Admission and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or to the future. Numis accordingly disclaims to the fullest extent permitted by law all or any responsibility or liability whether arising in tort, contract or otherwise (save as referred to herein) which it might otherwise have in respect of such statement.

**Notice of a General Meeting of the Company to be held at the office of the Company at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB at 10.00 a.m. on 2 December 2013 is set out at Part 14 of this document. The Form of Proxy for use at the General Meeting accompanies this document and, to be valid, should be completed and returned in accordance with the instructions set out thereon as soon as possible but, in any event, so as to reach the Company’s Registrars, Equiniti, not later than 10.00 a.m. on 30 November 2013. Completion and posting of the Proxy Form does not prevent a Shareholder from attending and voting in person at the General Meeting.**

Your attention is drawn to the letter from the Chairman of the Company set out on pages 28 to 35 of this document and which contains the unanimous recommendation of the Directors that you vote in favour of the Resolutions to be proposed at the General Meeting.

This document does not constitute an offer of, and may not be used for the purposes of, an offer to sell or an invitation, or the solicitation of an offer to subscribe for or buy, any securities. None of the securities referred to in this document shall be sold, issued or transferred in any jurisdiction in contravention of applicable law.

The Consideration Shares have not been marketed to, nor are any available for purchase by, the public in the UK or elsewhere in connection with the admission of the Consideration Shares to the Official List and to trading on the London Stock Exchange.

The Consideration Shares have not been approved or disapproved by the US Securities and Exchange Commission, or any other securities commission or regulatory authority in the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Consideration Shares nor have they approved this document or confirmed the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

The Consideration Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “US Securities Act”) or the relevant laws of any state, province or territory of the United States. Unless so registered, the Consideration Shares may not be offered, sold, taken up or exercised, within the United States except in a transaction that is exempt from, or not subject to, the registration requirements of the US Securities Act. This document does not constitute an offer of Consideration Shares to any person with a registered address, or who is resident, in the United States. There will be no public offer in the United States.

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## SUMMARY

*Summaries are made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A – E (A.1 – E.7).*

*This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.*

Section A – Introduction and warnings		
A.1	Warning	This summary should be read as an introduction to this document. Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Union, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.
A2	Subsequent resale of securities or final placement of securities through financial intermediaries	Not applicable. There is no subsequent resale or final placement of securities by any financial intermediary.

Section B – Company and any guarantor		
B.1	Legal and commercial name	The Company’s legal and commercial name is Primary Health Properties PLC (the “ <b>Company</b> ”).
B.2	Domicile/Legal form/Legislation/ Country of incorporation	The Company was incorporated in England and Wales on 16 March 1995 under the Companies Act 1985 as a public limited company with registered number 03033634.

<b>B.3</b>	<b>Key factors of Company's current operations and principal activities</b>	<p>The Group's property portfolio comprises primary healthcare facilities in the UK, both completed and committed, which are primarily let to GP surgeries, NHS bodies and pharmacy operators. The Group is externally advised by the Joint Advisers.</p> <p>As at 30 June 2013 the Group held 186 primary healthcare assets comprising of 180 completed properties and forward funding commitments for a further six, with a total portfolio value of approximately £660 million, generating an annualised rental roll of approximately £39.7 million per annum. Since 30 June 2013 the Group has acquired or contracted to acquire 17 further assets.</p> <p>The Company is the principal company of a UK-REIT group. All of the Group's completed properties are held for long-term investment. The Group's strategy is to acquire the freehold and long leaseholds of modern purpose built primary healthcare properties on the basis that each property purchased by the Group will have been evaluated for its income and asset value growth potential.</p>
<b>B.4a</b>	<b>Significant trends</b>	<p>The demand for modern, fit for purpose medical centre properties is being driven by a market shift from secondary care (hospitals) towards primary and community care as encouraged by the Government.</p> <p>Technological developments and specialist GP training are allowing more procedures and diagnostics to be performed in community primary care facilities rather than in centralised major facilities such as hospitals.</p> <p>The HSC Act has recently reinforced the primacy of care by transferring budgetary and commissioning responsibilities in England to GPs and local clinicians through the establishment of clinical commissioning groups.</p>
<b>B.5</b>	<b>Group structure</b>	<p>The Company is the parent of 27 principal subsidiaries, all of which are 100 per cent. owned by the Company.</p> <p>The principal subsidiaries specialise in the ownership of freehold or long leasehold interests in modern purpose-built healthcare facilities only, the majority of which are leased to GPs and other associated healthcare users.</p>

<b>B.6</b>	<b>Notifiable interests</b>	<p>As at 14 November 2013 (being the latest practicable date prior to the publication of this document), the Company had been notified of or was otherwise aware of the following Shareholders who were directly or indirectly interested in three per cent. or more of the issued Ordinary Shares:</p> <table data-bbox="603 459 1394 936"> <thead> <tr> <th colspan="3" data-bbox="603 548 657 571"></th></tr> <tr> <th colspan="3" data-bbox="603 548 657 571">As at 14 November 2013</th></tr> <tr> <th data-bbox="603 548 657 571">Name</th><th data-bbox="1086 548 1235 571">Ordinary Shares</th><th data-bbox="1262 495 1394 571">Percentage of existing issued share capital</th></tr> </thead> <tbody> <tr> <td data-bbox="603 584 948 607">Investec Wealth &amp; Investment</td><td data-bbox="1126 584 1235 607">6,008,750</td><td data-bbox="1342 584 1394 607">6.14</td></tr> <tr> <td data-bbox="603 613 884 636">Troy Asset Management</td><td data-bbox="1126 613 1235 636">4,470,000</td><td data-bbox="1342 613 1394 636">4.57</td></tr> <tr> <td data-bbox="603 642 986 665">Nexus Group Holdings Limited<sup>(1)</sup></td><td data-bbox="1126 642 1251 665">4,000,000<sup>(2)</sup></td><td data-bbox="1342 642 1394 665">4.09</td></tr> <tr> <td data-bbox="603 672 1054 694">Brooks Macdonald Asset Management</td><td data-bbox="1126 672 1235 694">3,954,668</td><td data-bbox="1342 672 1394 694">4.04</td></tr> <tr> <td data-bbox="603 701 783 723">Charles Stanley</td><td data-bbox="1126 701 1235 723">3,874,625</td><td data-bbox="1342 701 1394 723">3.96</td></tr> <tr> <td data-bbox="603 730 788 752">Brewin Dolphin</td><td data-bbox="1126 730 1235 752">3,818,987</td><td data-bbox="1342 730 1394 752">3.90</td></tr> <tr> <td data-bbox="603 759 975 781">CCLA Investment Management</td><td data-bbox="1126 759 1235 781">3,815,000</td><td data-bbox="1342 759 1394 781">3.90</td></tr> <tr> <td data-bbox="603 788 724 810">BlackRock</td><td data-bbox="1126 788 1235 810">3,530,025</td><td data-bbox="1342 788 1394 810">3.61</td></tr> <tr> <td data-bbox="603 817 858 840">Hargreaves Lansdown</td><td data-bbox="1126 817 1235 840">3,167,241</td><td data-bbox="1342 817 1394 840">3.24</td></tr> <tr> <td data-bbox="603 846 1086 869">Legal &amp; General Investment Management</td><td data-bbox="1126 846 1235 869">3,159,148</td><td data-bbox="1342 846 1394 869">3.23</td></tr> <tr> <td data-bbox="603 875 922 898">Cheviot Asset Management</td><td data-bbox="1126 875 1235 898">2,952,847</td><td data-bbox="1342 875 1394 898">3.02</td></tr> </tbody> </table> <p>(1) Nexus Group Holdings Limited is connected to Harry Hyman.</p> <p>(2) These Ordinary Shares are subject to a debenture and fixed charge over all of Nexus Group Holdings Limited's assets to its bank.</p> <p>Save as disclosed above, the Company is not aware of any person who, as at 14 November 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds three per cent. (and in the case of a fund management holding company, five per cent.) of the total voting rights attaching to its issued share capital.</p>				As at 14 November 2013			Name	Ordinary Shares	Percentage of existing issued share capital	Investec Wealth & Investment	6,008,750	6.14	Troy Asset Management	4,470,000	4.57	Nexus Group Holdings Limited <sup>(1)</sup>	4,000,000 <sup>(2)</sup>	4.09	Brooks Macdonald Asset Management	3,954,668	4.04	Charles Stanley	3,874,625	3.96	Brewin Dolphin	3,818,987	3.90	CCLA Investment Management	3,815,000	3.90	BlackRock	3,530,025	3.61	Hargreaves Lansdown	3,167,241	3.24	Legal & General Investment Management	3,159,148	3.23	Cheviot Asset Management	2,952,847	3.02
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	<b>Different voting rights</b>	<p>None of the Shareholders referred to above has different voting rights from any other holder of Ordinary Shares in respect of such shares held by them.</p> <p>As at 14 November 2013 (being the latest practicable date prior to the publication of this document), the Company had been notified of or was otherwise aware of the following interests of Directors and their connected persons:</p>																																										

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B.7	Historical financial information	<p>The Group’s consolidated financial information set out below has been extracted without material adjustment from the financial information referred to in Part 5: “Operating and Financial Review”.</p> <p><i>Income Statement Data:</i></p> <table><tr><th></th><th>30 June 2013 £’000</th><th>31 December 2012 £’000</th><th>30 June 2012 £’000</th><th>31 December 2011 £’000</th><th>31 December 2010 £’000</th></tr><tr><td>Rental and related income</td><td>19,693</td><td>33,151</td><td>16,210</td><td>30,676</td><td>26,915</td></tr><tr><td>Operating profit before revaluation result on property portfolio</td><td>16,450</td><td>27,625</td><td>13,443</td><td>25,117</td><td>21,871</td></tr><tr><td>Net revaluation result on property portfolio</td><td>240</td><td>(1,768)</td><td>631</td><td>10,584</td><td>22,790</td></tr><tr><td>Operating profit before financing costs</td><td>17,331</td><td>25,857</td><td>14,074</td><td>36,013</td><td>44,661</td></tr><tr><td>Profit on ordinary activities before taxation</td><td>13,579</td><td>1,129</td><td>4,156</td><td>12,649</td><td>27,225</td></tr><tr><td>Profit for the period<sup>(1)</sup></td><td>13,580</td><td>1,130</td><td>4,156</td><td>12,654</td><td>25,675</td></tr><tr><td>Earnings per share<sup>(2)</sup></td><td>17.4p</td><td>1.56p</td><td>5.9p</td><td>18.97p</td><td>41.30p</td></tr><tr><td>Adjusted earnings per share<sup>(2)(3)</sup></td><td>4.8p</td><td>10.16p</td><td>6.1p</td><td>14.54p</td><td>14.72p</td></tr></table> <p>The above relates wholly to continuing operations.</p> <p>(1) Wholly attributable to equity shareholders of the Company.</p> <p>(2) There is no difference between basic and fully diluted EPS.</p> <p>(3) Adjusted for large one-off items and movements in fair value of properties and derivatives (see note 8 of the Annual Report and Accounts for the year ended 31 December 2012).</p>		30 June 2013 £’000	31 December 2012 £’000	30 June 2012 £’000	31 December 2011 £’000	31 December 2010 £’000	Rental and related income	19,693	33,151	16,210	30,676	26,915	Operating profit before revaluation result on property portfolio	16,450	27,625	13,443	25,117	21,871	Net revaluation result on property portfolio	240	(1,768)	631	10,584	22,790	Operating profit before financing costs	17,331	25,857	14,074	36,013	44,661	Profit on ordinary activities before taxation	13,579	1,129	4,156	12,649	27,225	Profit for the period <sup>(1)</sup>	13,580	1,130	4,156	12,654	25,675	Earnings per share <sup>(2)</sup>	17.4p	1.56p	5.9p	18.97p	41.30p	Adjusted earnings per share <sup>(2)(3)</sup>	4.8p	10.16p	6.1p	14.54p	14.72p
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		<p><b>Balance Sheet Data:</b></p> <table> <tr> <th></th> <th>30 June 2013</th> <th>31 December 2012</th> <th>30 June 2012</th> <th>31 December 2011</th> <th>31 December 2010<sup>(1)</sup></th> </tr> <tr> <th></th> <th>£'000</th> <th>£'000</th> <th>£'000</th> <th>£'000</th> <th>Restated £'000</th> </tr> <tr> <td>Investment properties</td> <td>646,728</td> <td>622,447</td> <td>539,154</td> <td>525,586</td> <td>469,290</td> </tr> <tr> <td>Total assets</td> <td>664,588</td> <td>653,580</td> <td>546,351</td> <td>531,419</td> <td>476,294</td> </tr> <tr> <td>Total liabilities</td> <td>(404,408)</td> <td>(474,490)</td> <td>(360,663)</td> <td>(363,299)</td> <td>(311,548)</td> </tr> <tr> <td>Net assets</td> <td>260,180</td> <td>179,090</td> <td>185,688</td> <td>168,120</td> <td>164,746</td> </tr> <tr> <td>Net asset value per share – basic</td> <td>265.9p</td> <td>235.54p</td> <td>248.9p</td> <td>246.25p</td> <td>262.32p</td> </tr> <tr> <td>EPRA net asset value per share</td> <td>301.3p</td> <td>305.03p</td> <td>314.9p</td> <td>318.73p</td> <td>311.47p</td> </tr> </table> <p>(1) Principal repayments on Aviva fixed term loan of £0.6 million restated to current liabilities from non-current liabilities. This restatement has no impact on net assets and “Financial Review” was prepared, up until the date of this document.</p> <p>There has been no significant change to change to PHP’s financial condition and operating results during or subsequent to the period covered by the historical key information on PHP set out in this section.</p>		30 June 2013	31 December 2012	30 June 2012	31 December 2011	31 December 2010 <sup>(1)</sup>		£'000	£'000	£'000	£'000	Restated £'000	Investment properties	646,728	622,447	539,154	525,586	469,290	Total assets	664,588	653,580	546,351	531,419	476,294	Total liabilities	(404,408)	(474,490)	(360,663)	(363,299)	(311,548)	Net assets	260,180	179,090	185,688	168,120	164,746	Net asset value per share – basic	265.9p	235.54p	248.9p	246.25p	262.32p	EPRA net asset value per share	301.3p	305.03p	314.9p	318.73p	311.47p
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	£'000	£'000	£'000	£'000	Restated £'000																																													
Investment properties	646,728	622,447	539,154	525,586	469,290																																													
Total assets	664,588	653,580	546,351	531,419	476,294																																													
Total liabilities	(404,408)	(474,490)	(360,663)	(363,299)	(311,548)																																													
Net assets	260,180	179,090	185,688	168,120	164,746																																													
Net asset value per share – basic	265.9p	235.54p	248.9p	246.25p	262.32p																																													
EPRA net asset value per share	301.3p	305.03p	314.9p	318.73p	311.47p																																													
B.8	Pro forma financial information	<p>The unaudited pro forma financial information of the Group is based on the consolidated net assets of the Group set out in the interim results and unaudited financial statements of the Group for the six-month period to 30 June 2013. The pro forma financial information has been prepared to illustrate the effect on the consolidated net assets of the Group as if the Acquisition had taken place on 30 June 2013.</p> <p>The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group’s actual financial position.</p> <p>The unaudited pro forma financial information has been prepared on the basis set out in the notes below and in accordance with the requirements of Listing Rule 13.3.3R. The unaudited pro forma financial information has been prepared on the basis of the accounting policies adopted by the Company in preparing the unaudited interim consolidated financial statements of the Group for the six-month period to 30 June 2013.</p>																																																



		Adjustments			Pro forma consolidated net assets of the Enlarged Group at 30 June 2013
	Consolidated net assets of the Group at 30 June 2013	Net assets of PPP Group at 31 December 2012	Acquisition of PPP Group		Total
	Note 1	Note 2	Note 3 and 4		
	£'m	£'m	£'m		£'m
<b>Non-current assets</b>					
Investment properties	646.7	220.7	–		867.4
Derivative interest rate swaps	0.2	–	–		0.2
Property, plant and equipment	–	4.1	–		4.1
<b>Non-current assets</b>	<u>646.9</u>	<u>224.8</u>	<u>–</u>		<u>871.7</u>
<b>Current assets</b>					
Trade and other receivables	3.0	2.8	–		5.8
Cash and cash equivalents	14.6	3.0	(1.4)		16.2
<b>Current assets</b>	<u>17.6</u>	<u>5.8</u>	<u>(1.4)</u>		<u>22.0</u>
<b>Total assets</b>	<u>664.50</u>	<u>230.6</u>	<u>(1.4)</u>		<u>893.7</u>
<b>Current liabilities</b>					
Term loans	(0.6)	(1.5)	–		(2.1)
Derivative interest rate swaps	(7.5)	–	–		(7.5)
Trade and other payables	(10.3)	(2.4)	–		(12.7)
Deferred rental income	(8.2)	(3.3)	–		(11.5)
<b>Current liabilities</b>	<u>(26.6)</u>	<u>(7.2)</u>	<u>–</u>		<u>(33.8)</u>
<b>Non-current liabilities</b>					
Term loans	(276.7)	(181.2)	–		(457.9)
Retail Bond	(73.8)	–	–		(73.8)
Deferred income tax liabilities	–	(8.4)	8.4		–
Derivative interest rate swaps	(27.3)	–	–		(27.3)
<b>Non-current liabilities</b>	<u>(377.8)</u>	<u>(189.6)</u>	<u>8.4</u>		<u>(559.0)</u>
<b>Total liabilities</b>	<u>(404.4)</u>	<u>(196.8)</u>	<u>8.4</u>		<u>(592.8)</u>
<b>Net assets</b>	<u>260.1</u>	<u>33.8</u>	<u>7.0</u>		<u>300.9</u>
<b>Notes:</b>					
(1) The net assets of the Group as at 30 June 2013 have been extracted without material adjustment from the interim results and unaudited financial statements of the Group for the six months ended 30 June 2013, as incorporated by reference in Part 12 of this document.					
(2) The net assets of PPP have been extracted, without material adjustment, from the historical financial information in Part 8 (“Historical Financial Information of the PPP Group”) of this document.					
(3) The unaudited pro forma statement of net assets has been prepared on the basis that the Acquisition will be accounted for as a property acquisition and not as a business combination on the basis that the PPP Group is essentially a portfolio of assets and has no personnel and business processes. On this basis the cost to acquire the corporate entity will be allocated between the identifiable assets and liabilities of the entity based on their relative fair values on the date of completion of the Acquisition. Accordingly, no goodwill is expected to arise. No estimation has been made of the fair					

		<p>value adjustments that would arise at the date of acquisition as these are dependent upon values at that date. The initial consideration of £40.3 million is to be satisfied by the issue to the Sellers of 12,577,771 new Ordinary Shares at a price of 320 pence per share. The total consideration of approximately £41.1 million will be adjusted up to a maximum consideration of approximately £42.6 million following Completion, as described in Part 2 (“Principal Terms and Conditions of the Acquisition Agreement”) of this document.</p> <p>(4) Pro forma adjustments are as follows:</p> <p>(a) Total acquisition costs and expenses of £1.4 million are reflected as a movement in cash.</p> <p>(b) On completion of the acquisition, as part of the Enlarged Group, the PPP Group automatically enters the UK-REIT regime. As such, the deferred tax liabilities of PPP (£8.4 million as at 31 December 2012) will be reversed on consolidation post acquisition.</p> <p>(5) A valuation of the PPP Portfolio at 31 October 2013 is set out at Section B of Part 10 (“Property Valuation Reports”). The table below reconciles the investment properties of the Enlarged Group on the basis of this valuation:</p> <table><tr><td></td><td style="text-align: right;"><b>£’m</b></td></tr><tr><td>Investment properties of the Group as at 30 June 2013</td><td style="text-align: right;">646.7</td></tr><tr><td>Investment properties of PPP as at 31 December 2012</td><td style="text-align: right;">220.7</td></tr><tr><td>Increase in valuation of investment properties of PPP as at 31 October 2013</td><td style="text-align: right;">12.3</td></tr><tr><td></td><td style="text-align: right;"><u>879.7</u></td></tr></table> <p>(6) The unaudited pro forma financial information does not take into account trading of the Group subsequent to the interim balance sheet date of 30 June 2013 or the PPP Group subsequent to the year end balance sheet date of 31 December 2012, including the PPP Group reorganisation as described in Part 8 (“Historical Financial Information on the PPP Group”).</p>		<b>£’m</b>	Investment properties of the Group as at 30 June 2013	646.7	Investment properties of PPP as at 31 December 2012	220.7	Increase in valuation of investment properties of PPP as at 31 October 2013	12.3		<u>879.7</u>
	<b>£’m</b>											
Investment properties of the Group as at 30 June 2013	646.7											
Investment properties of PPP as at 31 December 2012	220.7											
Increase in valuation of investment properties of PPP as at 31 October 2013	12.3											
	<u>879.7</u>											
<b>B.9</b>	<b>Profit forecast</b>	Not applicable – no profit forecasts or estimates have been made.										
<b>B.10</b>	<b>Qualifications in the audit report</b>	Not applicable – there are no qualifications made in the audit report.										
<b>B.11</b>	<b>Working capital</b>	<p>Not applicable – in the opinion of PHP, after taking into account existing bank facilities available to the Group, the working capital available to the Group is sufficient for its present requirements, that is, for at least the 12 months following the date of this document.</p> <p>In the opinion of PHP, after taking into account existing bank facilities available to the Enlarged Group, the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this document.</p>										

<b>Section C – Securities</b>		
<b>C.1</b>	<b>Type and class of securities being offered</b>	The Company intends to issue up to 13,326,624 Consideration Shares. When admitted to trading, the Consideration Shares will be registered with ISIN (International Securities Identifying Number) GB007015521 and SEDOL (Stock Exchange Daily Official List) number 0701552.
<b>C.2</b>	<b>Currency of the securities issue</b>	British pounds sterling.
<b>C.3</b>	<b>Issued share capital</b>	<p>The issued and fully paid share capital of the Company as at 14 November 2013 was 97,896,459 Ordinary Shares (all of which are fully paid up or credited as fully paid up).</p> <p>The nominal value of the issued ordinary share capital of the Company as at 14 November 2013 is £48,934,729.50 divided into 97,896,459 ordinary shares of 50 pence each.</p>
<b>C.4</b>	<b>Description of the rights attaching to the securities</b>	The Consideration Shares will, when issued and fully paid, rank equally in all respects with Existing Ordinary Shares, including the right to receive all dividends or other distributions made, paid, or declared, if any, by reference to a record date after the date of their issue.
<b>C.5</b>	<b>Restrictions on the free transferability of the securities</b>	The Consideration Shares and Existing Ordinary Shares will be and are freely transferable, subject to the restrictions in articles 30 to 36 of the Articles.
<b>C.6</b>	<b>Admission</b>	<p>Applications will be made to the FCA and to the London Stock Exchange, respectively, for the Consideration Shares to be admitted to the listing on the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.</p> <p>Subject to the conditions to the Acquisition having been satisfied it is expected that Admission of the Initial Consideration Shares will become effective and that dealings on the London Stock Exchange will commence at 8.00 a.m. on or around 3 December 2013.</p>
<b>C.7</b>	<b>Dividend policy</b>	The Company intends to continue to pay substantially all of its earnings as dividends in line with current dividend policy, though there can be no guarantee of the level of future dividends, if any.

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**Section D – Risks**

<b>D.1</b>	<b>Key information on the key risks specific to the Group or its industry</b>	<ul style="list-style-type: none"><li>– Commercial property and commercial property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty.</li><li>– The performance of the Company may be adversely affected by a downturn in the UK commercial property market in terms of capital value or a weakening of rental yields.</li><li>– Failure to meet the UK-REIT dividend requirements may mean that the Group is subject to an increased tax charge and may trigger a breach of the UK-REIT conditions.</li><li>– The Company cannot guarantee continued compliance with all of the UK-REIT conditions and there is a risk that the UK-REIT regime may cease to apply in some circumstances.</li><li>– The Company has no influence over the future direction of primary care initiatives in the public sector, and there can be no assurance that the UK government's primary care budget will not decline or that growth will stay at present levels.</li><li>– Cuts in the funding available for the renting of medical centres or changes to future rental reimbursement mechanisms to GPs by the NHS may reduce funds available to meet the costs of accommodation provided by the Group or impact on the covenant strength of the underlying tenants in future.</li><li>– The Company is dependent on its Directors and the Joint Advisers and may be adversely affected if their services or the respective services of any of their key employees are terminated.</li><li>– Should the Company refinance certain debt facilities, as may be required in the longer term, some mark to market position relating to selected swaps may need to be closed, which could adversely impact the financial condition and cashflow of the Group.</li></ul>
<b>D.3</b>	<b>Key information on the key risks specific to the securities</b>	<ul style="list-style-type: none"><li>– Although the Ordinary Shares are listed on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's main market and will be freely transferable, the ability of Shareholders to sell their Ordinary Shares in the market, and the price which they may receive, will depend on market conditions.</li><li>– The market value of, and the income derived from, the Ordinary Shares can fluctuate and may not always reflect the prevailing Net Asset Value per Ordinary Share.</li></ul>

<b>Section E – Offer</b>		
<b>E.1</b>	<b>Net proceeds and costs of the offer</b>	<p>The Company is not receiving any proceeds.</p> <p>The total costs, charges and expenses (including fees and commissions) (exclusive of recoverable VAT) payable by the Company in connection with the Acquisition and the Admission of the Consideration Shares are estimated to amount to approximately £1.39 million.</p>
<b>E.2a</b>	<b>Reason for offer and use of proceeds</b>	<p>The Consideration Shares will be issued to the Sellers as consideration under the terms of the Acquisition Agreement.</p> <p>The Company is not receiving any proceeds.</p>
<b>E.3</b>	<b>Terms and conditions of the offer</b>	<p>Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company.</p> <p>The Company entered into the Acquisition Agreement with the Sellers on 14 November 2013. Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire the entire issued share capital of Prime Public Partnerships (Holdings) Limited for an estimated consideration of approximately £41.1 million, representing the expected net asset value of the PPP Group at Completion, to be satisfied by the issue to the Sellers of new Ordinary Shares at a price of 320 pence per share, as follows:</p> <ul style="list-style-type: none"> <li>• 12,577,771 Initial Consideration Shares will be issued at Completion;</li> <li>• up to 513,378 Further Consideration Shares may be issued following preparation of completion accounts, based on the actual net asset value of the PPP Group at Completion; and</li> <li>• 235,475 Further Consideration Shares may be issued subject to the amendment of a PPP Portfolio property lease within 12 months of Completion.</li> </ul> <p>If all the Further Consideration Shares are so issued, the final consideration would be equal to approximately £42.6 million.</p> <p>Completion of the Acquisition is conditional on, amongst other things, the passing of the Resolutions at the General Meeting and Admission.</p> <p>It is expected that Admission will become effective and that dealings on the London Stock Exchange in the Initial Consideration Shares will commence at 8.00 a.m. on 3 December 2013.</p>

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<b>E.4</b>	<b>Material interests</b>	Not applicable – no interest is material to the issue.
<b>E.5</b>	<b>Name of person selling securities/ lock up agreements</b>	Each of the Sellers has entered into lock up arrangements under the Acquisition Agreement pursuant to which they have undertaken, subject to certain exceptions, not to sell or dispose of their holding of Consideration Shares for a period of 18 months following Completion.
<b>E.6</b>	<b>Dilution</b>	If the Acquisition completes, it will result in the issue of a maximum of 13,326,624 Consideration Shares to the Sellers which would result in the Sellers holding approximately 12.0 per cent. of the issued share capital of the Company. This will result in the Company's issued share capital increasing by approximately 13.6 per cent. If the Acquisition completes on this basis, existing Shareholders will suffer a dilution as a result of the Acquisition, following which they will hold approximately 88.0 per cent. of the issued share capital of the Company.
<b>E.7</b>	<b>Expenses charged to the investor</b>	Not applicable – there are no commissions, fees or expenses to be charged to investors by the Company.

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## RISK FACTORS

*Any investment in shares is subject to a number of risks. Prior to investing in Ordinary Shares, prospective investors should carefully consider all the information in this document, including the risks described below. A number of factors affect the operating results, financial condition and prospects of each of the Group and, following the Completion, will affect the Enlarged Group. The risks below are all those which the Directors are aware of and which they consider material. However, additional risks and uncertainties not currently known to the Directors, or that the Directors currently consider immaterial, may also adversely affect the Group's business, results of operations or financial condition. If any or a combination of the following risks materialise, the Group's (and, after Completion, the Enlarged Group's) business, financial condition and/or operational performance could be materially adversely affected. In that case, the trading price of the Ordinary Shares may decline and investors may lose all or part of the value of their investment.*

*Prospective investors should note that the risks relating to the Company, its industry and the Ordinary Shares summarised in the section of this document headed "Summary" are the risks that the Company believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which the Company faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.*

### **1. GROUP (INCLUDING THE PPP GROUP AS PART OF THE ENLARGED GROUP AFTER COMPLETION) SPECIFIC RISKS**

#### **Status as a UK Real Estate Investment Trust (under Part 12 of the Corporation Tax Act 2010) ("UK-REIT")**

Under the UK-REIT regime the Company will have to meet a minimum distribution test for each year that it is the principal company of a UK-REIT. The minimum distribution test requires the Company to distribute 90 per cent. of the income profits (broadly, calculated using normal tax rules) of the qualifying property rental business of the Group (being the worldwide rental business of UK resident companies and the UK rental business of non-UK resident companies within a UK-REIT) for each year. Failure to meet the UK-REIT dividend requirements may mean that the Group is subject to an increased tax charge and may trigger a breach of the UK-REIT conditions.

The Company cannot guarantee continued compliance with all of the UK-REIT conditions and there is a risk that the UK-REIT regime may cease to apply in some circumstances. HMRC may require the Company to exit the UK-REIT regime if:

- it regards a breach of the conditions or failure to satisfy the conditions relating to the tax exempt business, or an attempt to obtain a tax advantage, as sufficiently serious;
- if the Company has committed a certain number of minor or inadvertent breaches in a specified period; or
- if HMRC has given the Company at least two notices in relation to the avoidance of tax within a ten year period.

In addition, if the conditions for UK-REIT status relating to the share capital of the Company or the prohibition on entering into loans with abnormal returns are breached, or the Company ceases to be UK resident, becomes dual resident or an open ended investment company, the Company will automatically lose its UK-REIT status. The Company could therefore lose its status as a UK-REIT as a result of actions by third parties, for example, in the event of a successful takeover by a company that is not a UK-REIT.

If the Company were to be required to leave the UK-REIT regime within ten years of joining, HMRC has wide powers to direct how it is to be taxed, including in relation to the date on which the Company is treated as exiting the UK-REIT regime. The Company may also be subject to an increased tax charge.

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### **Company Borrowing**

The Company is a long term investor in property and accordingly is exposed to long term cyclical movements in property valuations. In the short and medium term the Company believes it has a prudent level of headroom on all of its existing debt facilities. However, in the longer term, if property valuations were to fall to a level such that the respective Group company was required to repay all or part of its borrowings, either as a result of a breach of a covenant during the course of the term or because of an inability to repay at the end of the term, a scenario which the Directors currently believe is unlikely, the relevant subsidiary and/or other Group companies may be forced to sell various assets. In such circumstances, it is conceivable that the Group may be required to sell the assets at less than their market value, or at a time and in circumstances where the realisation proceeds are reduced due to a downturn in commercial property values generally or because there is limited time to market the property. As a consequence the net asset value of the Company could be adversely affected and the level of dividends which the Company is able to pay may also be reduced.

The Company has also granted security to certain lenders. Should any fall in the underlying asset value or expected revenues result in the Company breaching the financial and property covenants contractually agreed with its lenders, the Company may be required to make early repayment of such borrowings in whole or in part together with any attendant costs, including the costs of terminating any interest rate swap instruments. In such circumstances the Group's ability to pay a dividend would be restricted and the financial condition of the Group adversely impacted. Furthermore, the Company has guaranteed the performance of its subsidiaries under various development and financing agreements so the Company may be liable for any breach by a subsidiary of its obligations under any such agreements. The Company believes the level of headroom under the existing debt arrangements is prudent; however there can be no certainty with regard to long-term asset valuations and revenue generation.

Prospective investors should be aware that, whilst the use of borrowings, in certain circumstances, should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it would have the opposite effect where the underlying asset value is falling.

### **Interest rate risk**

The Group borrows monies on a variable rate basis from some of its lending banks and has the ability to enter, and has entered, into interest rate swaps and other derivative instruments to mitigate the risk to it of increased interest rates. Increases in underlying interest rates may reduce the profitability of the Group and its ability to pay dividends. To the extent that the relevant members of the Group do not enter into hedging arrangements or if such arrangements are no longer available or are only available at increased costs, the Group may be exposed to interest rate risk.

The current low interest rate environment, has given rise to a significant negative mark to market valuation of the interest rate swaps that is recognised as a reduction in net assets, although this does not represent a cash liability. In addition, should the Company refinance certain debt facilities, as may be required in the longer term, some mark to market positions relating to selected swaps may need to be closed, which could adversely impact the financial condition and cash-flow of the Group.

### **Access to debt financing in the future will depend on suitable market conditions**

In the longer term, and not during the period covered by the working capital statement, the Group is dependent upon access to debt funding to grow and maintain its property portfolio. Access to debt financing in the future will depend on suitable market conditions. If conditions in credit markets are unfavourable at the time when sources of financing expire or when the Group is looking to refinance them, the Group may not be able to obtain new sources of financing or may only be able to obtain new sources of financing at higher costs or on more restrictive terms. In such circumstances and in the longer term the Company may have to limit investment activity and the level of dividends the Company is able to pay may be reduced.

### **Ability to continue to pay dividends**

Under UK law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. All of the assets of the Group are owned by subsidiaries of the Company.

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Accordingly, the ability of the Company to continue to pay dividends is dependent on receipt by the Company of distributions from its subsidiaries, and therefore dependent on the continued operation and solvency of its subsidiaries.

The Company can give no assurances that it will be able to pay a dividend going forward.

#### **Legislative and regulatory requirements**

Governmental, legal or regulatory restrictions may have a negative impact on the Group's profitability by restricting the Group's ability to operate in a competitive manner, thus having a detrimental impact on its business and reputation. In particular, changes in landlord and tenant law, changes in planning law or changes to rates or treatment of stamp duty could affect the performance of the Group.

#### **Management**

The Group is managed by the board of directors of the Company. The Group has no employees. The Company appoints specialist third party advisers to assist it with the day to day running of the Group. Nexus Tradeco Limited ("**Nexus**") and J O Hambro Capital Management Limited ("**JOHCM**") (together, the "**Joint Advisers**") have been appointed as advisers to the Board with regard to property management, financial management and administrative services, with Nexus due to assume the duties of JOHCM in April, 2014. A termination of the advisory contract with the Joint Advisers prior to 30 April 2014, or with Nexus on or after 30 April 2014, could adversely affect the Board's ability to effectively manage day to day Group operations.

The failure of the Joint Advisers to retain and/or recruit suitably qualified or experienced employees and properly maintain appropriate financial, accounting, management and other information and support IT systems and, in particular, Nexus' ability to transfer over experienced employees from JOHCM under the Transfer of Undertakings (Protection of Employment) Regulations 2006 in April, 2014 could also have a material adverse effect on the Group's operations and results. Any such failure may lead to lost revenue and profitability and/or the Group incurring significant consequential and remedial costs.

#### **Economic and financial uncertainty**

In the recent past, turmoil in the financial, debt and commodities markets has had a significant adverse impact on certain sectors of the economy, including property and banking. This has adversely affected the availability and pricing of credit and real estate valuations in general. Although the future effect of the present economic conditions is unclear, economic and financial uncertainty or any deterioration in the banking or property markets may adversely affect property valuations and future access to finance and ultimately the earnings of the Group (and therefore the Company).

In addition, the rent payable by some of the Group's tenants is not linked to the retail prices index which may lead to a reduction in the real value of the Group's rental income and the valuation of the associated properties in the event of a sustained period of inflation.

## **2. RISKS RELATING TO THE ACQUISITION**

#### **The implementation of the Acquisition is subject to the satisfaction of a number of conditions**

The closing of the transaction contemplated by the Acquisition Agreement is subject to conditions, including:

- the passing of the Resolutions at the General Meeting; and
- Admission, which is subject to the approval of the FCA and will become effective as soon as a dealing notice has been issued by the FCA and the London Stock Exchange has acknowledged that the Initial Consideration Shares will be admitted to trading.

There is no guarantee that the conditions will be satisfied. Failure to satisfy any of the conditions may result in the Acquisition not being completed.

Further, the Company has the right to rescind the Acquisition Agreement by giving written notice to the Sellers if before Completion:

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- the Company becomes aware that any of the certificates of title relating to the PPP Portfolio and/or the warranties in the Acquisition Agreement was at the date of the Acquisition Agreement or has since the date of the Acquisition Agreement become, untrue, inaccurate or misleading in any material respect or has been breached in any material respect; or
  - the Sellers are in breach of any term of this Acquisition Agreement in any material respect.

If any of the above events occur, the Company may choose not to complete the Acquisition.

**Acquisition benefits may fail to materialise or be materially lower than have been estimated**

The Directors believe that the Acquisition will provide strategic and operational benefits for the Group (see Part 1 for a description of these benefits). However, there is a risk that the anticipated benefits will fail to materialise, or that they may be materially lower than have been estimated, which would have a significant impact on the profitability of the Enlarged Group in the future.

**The Acquisition of PPP will increase the Group's indebtedness**

Upon completion of the Acquisition, the Group will assume all of the outstanding debt of PPP, which is expected to be £178.4 million. The loan to value ratio of PPP is approximately 76.6 per cent. which is higher than that of PHP (52.8 per cent. as at 30 June 2013). Therefore the Acquisition will increase the leverage of PHP. Whilst there will still be no group level loan to value covenants in the Enlarged Group's debt portfolio, the Enlarged Group will be required to comply with all covenants contained in the debt facilities currently in place in relation to PPP. Given the increased level of indebtedness, should the Enlarged Group suffer any adverse movements in the valuation of its property portfolio, PHP's ability to invest in further property acquisitions may be restricted. This could have an adverse impact on the Enlarged Group's ability to grow rental income and expand the property portfolio.

**Shareholders will experience dilution in their ownership of the Company**

The effect of the Acquisition will be a reduction of the existing Shareholder's proportionate ownership and voting interests in PHP. After the completion of the Acquisition, Shareholders will own a smaller percentage of the issued share capital of the Company than they currently own. Based on the number of Ordinary Shares in issue as at the close of business on 14 November 2013 and assuming there are no other issues of Ordinary Shares between 14 November 2013 and date of agreement of the completion accounts and all the Consideration Shares are issued, the Sellers and the current Shareholders will own approximately 12.0 per cent. and approximately 88.0 per cent., respectively, of the issued shares of the Company following the agreement of the completion accounts under the Acquisition Agreement.

**Admission of the Initial Consideration Shares may not occur when expected**

It is expected that Admission of the Initial Consideration Shares will occur on or around 3 December 2013. Admission is subject to the approval of the FCA. Admission will become effective as soon as a dealing notice has been issued by the FCA and the London Stock Exchange has acknowledged that the Initial Consideration Shares will be admitted to trading. There can be no guarantee that any conditions to which Admission is subject will be met or that the FCA will issue a dealing notice. See the "Expected Timetable of Principal Events" on page 26 of this document for further information on the expected dates of these events.

### **3. RISKS RELATING TO THE ORDINARY SHARES**

**Market price fluctuation**

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares (or similar securities). Such risks depend on the market's perception of the likelihood of completion of the Acquisition, and/or in response to various facts and events, including any regulatory changes affecting PHP's operations, variations in PHP's operating results and business developments of the Group and/or its competitors. Stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to PHP's operating performance or prospects. Furthermore, PHP's

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operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of Ordinary Shares.

**There is no public market for the Ordinary Shares in the United States or elsewhere outside the United Kingdom**

There is currently no public market for the Ordinary Shares in the United States or elsewhere outside the United Kingdom. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or any state securities laws of the United States and will be subject to significant restrictions on resale in the United States. The Company does not intend to apply for listing of the Ordinary Shares on a securities exchange in the United States or elsewhere outside the United Kingdom. As a consequence, an active trading market is not expected to develop for the Ordinary Shares outside the United Kingdom and investors outside the United Kingdom may not be able to sell them at an acceptable price or at all.

**The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited**

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales. The rights of holders of Ordinary Shares are governed by English law and by the Articles. These rights differ from the rights of shareholders in public United States corporations and some other non-UK corporations. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors. The Directors are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors within the Overseas Shareholder's country of residence or to enforce against the Directors judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

**The Company is not and will not be registered under the United States Securities Act Investment Company Act of 1940**

The Company is not registered, and does not intend to register, as an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"), and related rules. The Investment Company Act and related rules provide certain protections to investors and impose certain restrictions on companies that are registered as investment companies (which, among other things, require investment companies to have a majority of disinterested directors, provide limitations on leverage and limit transactions between investment companies and their affiliates). None of these protections or restrictions is or will be applicable to the Company.

#### **4. UK HEALTHCARE MARKET AND HEALTHCARE REAL ESTATE**

**Focus on primary care premises**

The Company intends to continue its strategy of only investing in primary care premises. The Company has no influence over the future direction of primary care initiatives in the public sector, and there can be no assurance that the UK government's primary care budget will not decline or that growth will stay at present levels. A change in policy, moving resources away from the primary care market could materially and adversely affect the Company's and the Enlarged Group's prospects for continued profitability and rental growth.

**Funding of medical centre GP tenants**

The majority of the Group's and the PPP Group's income is derived from occupational leases whose counterparties are GP practices which benefit from rental and premises costs reimbursement under the National Health Service (General Medical Services Premises Costs) Direction 2004 (the "2004 Costs Directions") and the National Health Service (General Medical Services Premises Costs) Directions 2013

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(the “2013 Costs Directions”). Cuts in the funding available for the renting of medical centres or changes to future rental reimbursement mechanisms to GPs by the NHS may reduce funds available to meet the costs of accommodation provided by the Group or impact on the covenant strength of the underlying tenants in future. Should the NHS cease or reduce reimbursement, the Group’s and the Enlarged Group’s rental income would be diminished.

#### **Health and Social Care Act 2012 – abolition of primary care trusts**

Primary Care Trusts (“PCTs”) represented a proportion of the Group’s tenants until they were abolished on 1 April 2013 pursuant to the Health and Social Care Act 2012. NHS Property Services Limited (“NHS PS”), a limited liability company wholly owned by the Secretary of State, now holds the majority of the leases which were previously held by PCTs. The transfers took place on 1 April 2013 pursuant to statutory transfer schemes. There is no binding obligation on the Secretary of State to take action to protect landlords’ interests if NHS PS no longer exists and it is possible that, in the future, NHS PS’ interest in such leases may be transferred to a third party (or that, in the future, NHS PS itself will no longer be owned by the Secretary of State). However, the Secretary of State has provided NHS PS with an irrevocable indemnity to provide funds for NHS PS to meet its obligations as they fall due and has provided written assurances to primary care landlords that it will ensure that NHS PS meets its lease obligations and that any future third party assignee or owner will offer at least the same covenant strength as NHS PS.

### **5. INDUSTRY SPECIFIC RISKS**

#### **UK commercial property market**

The Company’s strategy is founded upon the basis that suitable properties will be available for investment by the Company at prices and upon terms and conditions (including financing) that the Board (having taken into consideration the recommendations of the Joint Advisers) considers favourable to the Company. No assurance can be given that such properties will be available.

The performance of the Group and the Enlarged Group may be adversely affected by a further downturn in the UK commercial property market in terms of capital value or a weakening of rental yields. This may also have a material adverse effect on the value of properties and any rental uplift from rent reviews.

The valuation of commercial property and commercial property related assets is inherently subjective and is subject to uncertainty. There are no assurances that valuations of properties will reflect actual sale prices that may be achievable.

Rental income and the market value for properties are generally affected by overall conditions in the national and local economy, such as growth in GDP, employment trends, inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may impact the demand for premises.

Both rental income and property values may also be affected by other factors specific to the commercial property market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

Returns from an investment in commercial property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value. If in the longer term the Group’s and the Enlarged Group’s commercial property portfolio does not generate income sufficient to meet operating expenses, including borrowings, interest payments and/or capital expenditure, the Company’s earnings and capacity to pay dividends may be adversely affected in the longer term.

#### **Competition**

The Directors consider that the Company’s main competitors comprise Medicx Fund Ltd, Assura Group Limited (formerly the Medical Property Fund) and a number of other unquoted companies including

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GPI Ltd (part of the GP Group). If competition increases the price of new investments, the Company may be unable to grow as presently envisaged, or have to pay more than it would like for new investments, which could materially affect the Group's and the Enlarged Group's profitability going forwards.

#### **Default by an occupational tenant**

In the event of default by an occupational tenant, the Group and the Enlarged Group will suffer a rental shortfall and incur additional cost including legal expenses, maintenance, insurance and managing the property until it is re-let.

#### **The Group and the Enlarged Group may be unable to let a property or re-let a property following the expiry of a tenancy**

The occupational leases entered into by members of the Group with tenants are typically for an initial term in excess of 20 years. There can be no assurance that the Group's and the Enlarged Group's tenants will renew their leases at the end of their current tenancies or, if they do not, that new tenants of equivalent standing (or any new tenants) will be found to take up replacement leases. This is particularly the case where a property requires refurbishment or redevelopment following the expiry of a tenancy. Tenants with the benefit of contractual break rights may also exercise these to bring the lease to an end before the contractual termination date. During void periods, the Group and the Enlarged Group will suffer a rental shortfall and incur additional expenses until the property is re-let. In the United Kingdom, this includes liability for rates. Even if tenant renewals or replacements are effected, there can be no assurance that such renewals or replacements will be on terms (including rental levels and rent review terms) that are as favourable to the Group and the Enlarged Group as before or that new tenants will be as creditworthy as previous tenants.

#### **Acquisitions of real estate assets**

The Group intends to continue to acquire real estate assets. Acquisitions of real estate assets involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties including the adverse short-term effects on the Company's operating results, diversion of management's attention and, despite due diligence on assets prior to acquisition, risks associated with unanticipated problems and latent liabilities or contingencies such as the existence of hazardous substances or environmental problems. Additional risks inherent in acquisitions include risks that the acquired properties will not achieve anticipated rental rates or occupancy levels, and that judgments with respect to improvements to increase the financial returns of acquired properties will prove inaccurate.

#### **Environmental liabilities resulting from ownership of property**

The Board views the assessment of environmental risk as an important element of its due diligence process when it acquires its properties. However there can be no guarantee that the Group or the Enlarged Group will not incur unexpected liabilities such as clean-up costs and fines for environmental pollution in respect of properties owned by the Group and the Enlarged Group.

#### **Refurbishment and ongoing improvement of properties**

The Group undertakes refurbishment and ongoing improvement of its property assets in order to maintain and enhance the valuation and earning capability of its property assets. The potential for the refurbishment and ongoing improvement of the properties may be adversely affected by a number of factors including constraints on location, planning legislation and the need to obtain other licences, consents and approvals and the existence of restrictive covenants affecting the title to the property, which may cause the revenues resulting from any refurbishment or enhancement work to be lower than budgeted or the cost of such work to be greater than budgeted, consequently impacting the performance of the Group and the Enlarged Group.

In order to comply with its obligations as landlord, the Group and the Enlarged Group may have to incur expenses which cannot be separately recovered from its tenants and may therefore have to be deducted from the rental income from these properties. This may adversely affect the return from the properties.

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**Uninsured losses**

The Board seeks to ensure that all of the Group's properties are adequately insured to cover potential losses. However, changes in the costs or availability of insurance could expose the Group and the Enlarged Group to uninsured losses. In the event that any of the properties incurs a loss that is not fully covered by insurance, the value of the Group's and the Enlarged Group's assets will be reduced by any such uninsured loss.



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## IMPORTANT INFORMATION

### General

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by PHP or by Numis. Except to the extent imposed by FSMA and/or the Prospectus Rules and/or the Listing Rules, neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the PHP Group since the date of this document or that the information in this document is correct as at any time subsequent to its date.

The contents of this document are not to be construed as legal, business or tax advice.

### Reproduction and distribution

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than as set out in this document is prohibited. By accepting delivery of this document you agree to the foregoing.

The distribution of this document into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. No action has been taken by PHP or by Numis that would permit an offer of Ordinary Shares or rights thereto or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

### Incorporation by reference

Certain information in relation to the Group has been incorporated by reference into this document. Please see Part 12 of this document.

### No incorporation of website

Neither the content of the Company's website ([www.PHPgroup.co.uk](http://www.PHPgroup.co.uk)) (or any other website) nor the content of any website accessible from hyperlinks on the Company's (or any other website) is incorporated into, or forms part of, this document.

### Definitions

Capitalised terms have the meanings ascribed to them in Part 13 of this document.

#### Presentation of financial information

The Company publishes its financial statements in pounds sterling (“£” or “**sterling**”). The abbreviation “£**m**” represents millions of pounds sterling, the abbreviation “£**'000**” represents thousands of pounds sterling and references to “**pence**” and “**p**” represent pence in the UK.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal point. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

### Forward-looking statements

This document includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms **anticipates**, **believes**, **estimates**, **expects**, **intends**, **may**, **plans**, **projects**, **should** or **will**, or, in each case,

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their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Company's and/or Directors' intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial position, prospects, growth, strategies and expectations for the primary healthcare market.

Any forward-looking statements in this document reflect the Company's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules, none of the Company, the Directors, and Numis undertake any obligation publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this document. A number of factors could cause results and developments of the Group to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in regulation, currency fluctuations, changes in its business strategy, political and economic uncertainty and other factors discussed in the sections headed "Risk Factors" and Part 1 of this document. Past performance of the Company is not necessarily indicative of future performance. The contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

**Time**

All references to time are to London time unless stated otherwise.



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## STATISTICS

Number of Ordinary Shares in issue at the date of this document	97,896,459
Number of Ordinary Shares expected to be issued as consideration for the Acquisition <sup>(1)</sup>	13,326,624
Enlarged Ordinary Share capital following completion of the Acquisition <sup>(1)</sup>	111,223,083
Consideration Shares as a percentage of the Enlarged Share Capital <sup>(1)</sup>	12.0%

**Notes:**

(1) The above assumes that all of the Consideration Shares will be issued pursuant to the Acquisition Agreement.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS<sup>(1)</sup>

Announcement of the Acquisition and Prospectus and publication and posting of the Prospectus and Form of Proxy	15 November 2013
<b>Latest time and date for receipt of Forms of Proxy</b>	10.00 a.m. on 30 November 2013
<b>General Meeting</b>	10.00 a.m. on 2 December 2013
Expected date of announcement of results of the General Meeting and the completion of the Acquisition through a Regulatory Information Service	3 December 2013
Expected date of completion of the Acquisition	3 December 2013
<b>Expected date of Admission and commencement of dealings in Initial Consideration Shares</b>	by 8.00 a.m. on 3 December 2013

**Notes:**

- (1) The times set out in the expected timetable of principal events above and mentioned throughout this document are times in London unless otherwise stated, and may be adjusted by the Company in consultation with or, if required, with the agreement of Numis, in which event details of the new times and dates will be notified to the Financial Conduct Authority, the London Stock Exchange and, where appropriate, Shareholders.

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## DIRECTORS AND ADVISERS

<b>Directors</b>	Graeme Elliot, <i>Non-Executive Chairman</i> Alun Jones, <i>Senior Independent Director (“SID”)</i> Harry Hyman, <i>Managing Director</i> Mark Creedy, <i>Non-Executive Director</i> William Hemmings, <i>Non-Executive Director</i> James Hambro, <i>Non-Executive Director</i> Dr. Ian Rutter O.B.E, <i>Non-Executive Director</i>
<b>Company Secretary</b>	J O Hambro Capital Management Limited
<b>Registered Office and Directors’ Business Address</b>	Ground Floor Ryder Court 14 Ryder Street London SW1Y 6QB
<b>Sponsor, joint financial adviser and joint broker</b>	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
<b>Joint financial adviser and joint broker</b>	Peel Hunt LLP Moor House 120 London Wall London EC2Y 5ET
<b>Legal Adviser to the Company</b>	Nabarro LLP Lacon House 84 Theobald’s Road London WC1X 8RW
<b>Legal Adviser to the Sponsor</b>	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA
<b>Auditors</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ
<b>Reporting Accountants</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Property Valuer</b>	Lambert Smith Hampton Group Limited Interchange Place Edmund Street Birmingham B3 2TA
<b>Registrars</b>	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

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## PART 1

### LETTER FROM THE CHAIRMAN



**Primary Health Properties**

*(Incorporated in England & Wales under the Companies Act 1985 with registered number 03033634)*

*Directors:*

Graeme Elliot *Non-Executive Chairman*  
Alun Jones *Senior Independent Director*  
Harry Hyman *Managing Director*  
Mark Creedy *Non-Executive Director*  
William Hemmings *Non-Executive Director*  
James Hambro *Non-Executive Director*  
Dr. Ian Rutter O.B.E. *Non-Executive Director*

*Registered office:*

Ground Floor  
Ryder Court  
14 Ryder Street  
London SW1Y 6QB

15 November 2013

Dear Shareholder,

**Proposed acquisition of Prime Public Partnerships (Holdings) Limited, issue of up to 13,326,624 new Ordinary Shares in connection with the proposed acquisition, application for admission of up to 13,326,624 new Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities and Notice of General Meeting**

#### 1. INTRODUCTION

On 15 November 2013, the Board announced that the Company had entered into an agreement to acquire Prime Public Partnerships (Holdings) Limited for an estimated consideration of approximately £41.1 million (subject to adjustment up to a maximum of approximately £42.6 million), to be satisfied by the issue to the Sellers of new Ordinary Shares at a price of 320 pence per share. The assets of the PPP Group principally comprise the PPP Portfolio of properties, which will be acquired with the existing external debt secured against it.

Due to its size and pursuant to the Listing Rules, the Acquisition constitutes a Class 1 transaction and requires the approval of the Shareholders at the General Meeting. The General Meeting has been convened for 10.00 a.m. on 2 December 2013 at the office of the Company at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB. At the General Meeting, authority is being sought to proceed with the Acquisition, to allot Ordinary Shares and to disapply pre-emption rights. Details of the Resolutions are set out in paragraph 8 of this Part 1 of this document and the Notice of General Meeting at Part 14 of this document.

The purpose of this document is to set out the background to, the reasons for, and the terms of the Acquisition, and:

- (a) to explain why the Board believes the Acquisition is in the best interests of Shareholders as a whole and why it unanimously supports the Acquisition;
- (b) to explain the Resolutions to be put to Shareholders at the General Meeting; and
- (c) to recommend that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting to be held on 2 December 2013.

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## **2. BACKGROUND TO AND REASONS FOR THE ACQUISITION**

### **Strategic rationale for the Acquisition**

#### **(a) *Portfolio features and attractions***

The Board believes the Acquisition presents an excellent and rare opportunity to acquire a large, high quality portfolio at a fair valuation that would significantly increase PHP's assets under management and enhance the Group's WAULT and average lot size. The Board believes that the Acquisition will firmly establish PHP as the leading UK investor in primary care assets and thereby strengthen the long-term investment case of the Company.

The PPP Portfolio comprises 54 completed properties. As at 31 October 2013 the valuation of the PPP Portfolio was £233 million, resulting in a combined portfolio valuation of the Enlarged Group of £879.7 million based on PHP's portfolio valuation as at 30 June 2013. The PPP properties are let to a combination of GP practices, NHS bodies and pharmacies with a contracted rent of £14.3 million.

In addition to significantly increasing the size of PHP's investment property portfolio, the Acquisition also advances a number of the Company's key performance indicators. The average lot size of the PPP Portfolio is £4.3 million, raising that of the Enlarged Group to approximately £3.7 million. The Acquisition will also enhance the longevity of the Enlarged Group's rental income, the PPP Portfolio having a WAULT of approximately 17 years with more than 62 per cent. of leases (by rental income) having 15 years or more remaining on their term. The PPP Portfolio is 99.9 per cent. let (by floor area) with 21 per cent. of leases benefitting from increases formally linked to RPI at rent reviews.

A number of asset management opportunities have been identified that will provide the opportunity to enhance the assets and increase the term and quantum of income generated from the Acquisition.

#### **(b) *Strategic and operational benefits***

Subject to completion of the Acquisition, PHP will enter into a five-year Development Pipeline Agreement with Prime PLC which will give PHP a first right of refusal on all future third party medical centre developments to be undertaken by Prime PLC. This will not constitute an obligation to purchase the assets concerned, but it will provide PHP with the opportunity to secure future medical centre developments in partnership with a highly regarded and successful development team within the primary care property sector.

As a result of the Acquisition, the Board believes that the Enlarged Group would have greater negotiation power in respect of a number of property services, as well as increased buying power in respect of potential new acquisition opportunities. In the longer term the Board believes these benefits should facilitate the continued execution of PHP's strategy. Further, the greater portfolio size of the Enlarged Group should allow PHP to access a broader range of debt financing options to facilitate future growth, in particular the ability to utilise a broader range of debt capital markets financing structures.

Following the Acquisition, Shareholders should also benefit from the increased operating efficiency attributable to the incremental advisory fee structure. PHP's external advisory contract fee rates reduce with portfolio size thereby offering economies of scale to Shareholders as the size of the portfolio increases.

#### **(c) *Financial attractions***

Under the terms of the Acquisition, PHP will be assuming the existing debt attributable to the PPP Portfolio that will be serviced by the rental income of the acquired portfolio. In agreeing the financial terms of the transaction, the value of the debt to be assumed has been adjusted to reflect an agreed mark to market adjustment. The Company has a track record of assuming debt with portfolio acquisitions and successfully resetting or renegotiating the terms of such facilities or using its existing debt lines to lower the overall interest cost to the PHP Group. Following completion, the Company proposes to enter into discussions with the provider of the current PPP debt facility, with

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a view to re-setting the contracted interest rates of the assumed debt and potentially refinancing the debt. PHP believes it can secure funding at attractive rates such that the cost of servicing the incremental debt is significantly reduced following completion of the Acquisition. The Board believes this renegotiation should enhance the profitability of the PPP Portfolio.

The Board believes the yield attributable to the PPP Portfolio, together with the beneficial effects of renegotiating the terms of PPP's debt, should enhance the future dividend cover of PHP. The Company has a 17 year track record of annual dividend increases, and the Board believes the Acquisition should provide further support to the continuation of PHP's dividend policy and track record.

On Completion, the PPP Portfolio automatically enters the REIT regime as part of the Group. Following the changes to the REIT regime which came into effect in 2012, there will be no REIT conversion charge in connection with the Acquisition.

### **Financial effects of implementing the Acquisition**

On a pro-forma basis and assuming the Acquisition had become effective on 30 June 2013, the Enlarged Group would have had net assets of £300.9 million at that date (based on the net assets of the Group as at 30 June 2013 and the net assets of PPP as at 31 December 2012, as extracted from the unaudited pro forma statement of the net assets of the Enlarged Group at Part 9 of this document).

The total costs, charges and expenses (including fees and commissions) (exclusive of recoverable VAT) payable by the Company in connection with the Acquisition and Admission are estimated to amount to approximately £1.39 million.

The Directors also expect that the Acquisition will make a positive contribution to total earnings for the Enlarged Group in the financial year ending 31 December 2013 (excluding total costs and expenses related to the Acquisition), as a result of the earnings of PPP being consolidated with those of the Company. The Directors believe the Acquisition will be materially earnings accretive for the year ending 31 December 2014 which would be further enhanced by the renegotiation of the terms of the existing PPP debt facilities, thereby supporting the dividend payments and further improving dividend cover.

The estimated financial benefits of implementing the Acquisition described in this letter reflect both the beneficial elements and the relevant costs. Any of the financial benefits of implementing the Acquisition described in this letter are dependent on Completion of the Acquisition and may not be achieved independently.

## **3. INFORMATION ON PPP GROUP**

### **Principal activity**

The principal activity of PPP is the same as that of PHP, namely the generation of rental income and capital growth through investments in primary healthcare property in the United Kingdom, leased principally to GPs, NHS bodies and other associated healthcare users.

### **The PPP Portfolio**

The PPP Portfolio comprises 54 purpose built medical centres with associated tenancies including approximately 25 pharmacies, two units let to local authorities and one small retail unit. The average lot size is £4.3 million.

In respect of geographic distribution, the PPP Portfolio is spread across the UK, with the portfolio geographically weighted towards the North (53.3 per cent. by value), Scotland (23.3 per cent.) and the Midlands (14.9 per cent.).

### **Financial performance**

As at 31 December 2012, PPP had investment properties with a book value of £220.7 million; net debt was £179.8 million representing a debt to assets ratio of 80 per cent., which compares to PHP's debt to assets ratio of 52 per cent. as at 30 June 2013.

In the year ended 31 December 2012, PPP had revenue of £13.9 million and made a profit after tax for the year of £6.8 million. Historical financial information in respect of the three years ended 31 December 2012 is set out in Part 8 of this document.

In conjunction with the publication of this document, the PPP Portfolio was externally valued at £233 million as at 31 October 2013. The property valuation report for the PPP Portfolio is set out in Part 10 of this document.

### Rental income

The average WAULT in the PPP Portfolio is approximately 17 years, the longest individual lease term being 29 years at the St Catherine's asset which has annual RPI-linked rent increases. Rent is predominantly received from GP leases, with a total of 94 per cent. being paid directly or indirectly by the NHS.

Lease duration	Number of leases	Rent roll <sup>(1)</sup> £ million	Per cent.
More than 20 years	15	3.5	24.6
15 to 20 years	45	5.4	38.0
5 to 15 years	51	5.4	37.4
Less than 5 years	—	—	—
Total	111	14.3	100.0

(1) Unaudited information as at 31 October 2013 sourced from PPP tenancy agreements and the PPP Property Valuation Report at Part 10 of this document.

The properties are let to a mix of GP practices (58 per cent.), NHS bodies (36 per cent.) and pharmacies (5 per cent.).

### Rent reviews

The majority of PPP's occupational leases contain rent review clauses where the review is triggered by the landlord only and are therefore considered effectively upward only. 21 per cent. of the leases are reviewed with a formal link to RPI.

### Debt facilities

The debt to be assumed with the Acquisition is expected to total £178.4 million and comprises a number of loans provided by Aviva, each secured against a specific property asset. The loans are long term, fixed rate facilities with terms ranging from 22 years to 30 years from inception of the loan and they have a current contracted interest rate ranging from 5.33 per cent. to 6.09 per cent. Facility covenants include minimum levels of debt service (interest and capital repayments) cover by rental income (DSCR). The DSCR varies across the separate loans with a range of 91.7 per cent. to 104 per cent.

In agreeing the consideration payable for PPP Group, the parties have agreed a mark to market adjustment of £13.7 million to the nominal value of the debt to reflect an estimate of the cost to re-set its contracted interest rate or its early repayment.

## 4. PRINCIPAL TERMS OF THE ACQUISITION

Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire the entire issued share capital of Prime Public Partnerships (Holdings) Limited for an estimated consideration of approximately £41.1 million, representing the expected net asset value of the PPP Group at Completion, to be satisfied by the issue to the Sellers of new Ordinary Shares at a price of 320 pence per share, as follows:

- 12,577,771 Initial Consideration Shares will be issued at Completion;
- up to 513,378 Further Consideration Shares may be issued following preparation of completion accounts, based on the actual net asset value of the PPP Group at Completion; and
- 235,475 Further Consideration Shares may be issued subject to the amendment of a PPP Portfolio property lease within 12 months of Completion.

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If all the Further Consideration Shares are so issued, the final consideration would be equal to approximately £42.6 million.

Completion of the Acquisition is conditional on, amongst other things, the passing of the Resolutions at the General Meeting and Admission. The Company has the right to rescind the Acquisition Agreement by giving written notice to the Sellers before Completion if, in summary, there is a material change to the certificates of title or there is a breach of the warranties or terms of the Acquisition Agreement by the Sellers.

## **5. CURRENT TRADING AND PROSPECTS**

### **(a) PHP**

On 5 November 2013, the Company issued its interim management statement for the period from 1 July 2013 to 4 November 2013. The information below is extracted from that announcement.

#### ***Borrowings and banking facilities***

On 5 November 2013 PHP announced the successful issue by the Group of a new 12 year, £70 million secured bond, issued on a floating rate basis paying interest at a margin of 220 basis points over six month LIBOR, extending the average maturity of PHP's debt facilities to more than 6.1 years (30 June 2013: 5.2 years). Following this issue and associated repayments of existing facilities, total facilities available to the Group amount to £486.2 million with drawn borrowings currently totalling £402.4 million.

#### ***Interest rate hedging***

The total mark to model liability of the derivative portfolio was estimated at £32.8 million as at 30 September 2013, a decrease from its value of £34.8 million at 30 June 2013. This movement has been caused by slight increases in longer term interest rates as global economic markets show initial signs of recovery and growth.

#### ***Property portfolio***

The Group has completed five new acquisitions since 30 June 2013, comprising 17 separate assets:

- On 2 July 2013, the Company announced that it had agreed to acquire the entire issued share capital of Primary Health Care Centres Limited, for approximately £10.5 million. The acquisition has added 11 fully let properties across the UK, generating a total annual rent roll of £1.7 million.
- On 1 August 2013, the Company announced that it had acquired a single purpose company whose sole asset is The Gracemount Medical Centre, Edinburgh for £6.35 million.
- On 1 August 2013 the Company announced that a wholly-owned subsidiary had entered into a forward commitment to develop a new primary care centre to be built in Bradford. The completed property will cost £2.2 million with completion anticipated in mid-2014.
- On 7 August 2013, the Company announced that a wholly-owned subsidiary had completed the acquisition of three modern, purpose built medical centres for a total consideration of £9.55 million located in Surrey, West Sussex and Ayrshire. Construction of the Ayrshire property reached completion on 23 October 2013.
- On 5 November 2013, the Company announced that a wholly-owned subsidiary has contracted to fund and acquire a new medical centre to be developed in Bristol. The centre will comprise 1,000 square metres of lettable space and will be fully let upon completion to five GP practice for an initial 21 year term. The development will cost £3.1 million and is anticipated to complete in December 2014.

In addition, two development properties already owned by PHP have achieved practical completion and become income producing in the period. Assets at Rumney, Cardiff and Splott, Cardiff, are now fully rent producing and generate annual rent of £0.6 million.



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The Group continues to appraise a strong pipeline of attractive acquisition opportunities, a mix of further forward funding commitments to acquire newly developed assets and standing let investments, all of which has the potential to be accretive to overall rent roll and Group profitability.

The Directors believe that property yields in the Group's portfolio have remained stable at approximately 5.71 per cent. in the period under review, as demand continues from property investors in all sectors for quality assets let to strong covenants. The next valuation of the freehold, leasehold and development properties of the Group will be carried out as at 31 December 2013.

#### ***Rent roll and rental growth***

Annualised passing rent roll of the Group's completed portfolio as at 4 November 2013 was £41.4 million (30 June 2013: £31.4 million), the increase being due to delivery of new assets, the letting of expansion space areas within the previously acquired Apollo portfolio and rent increases under the rent review programme completed in the period. This total increases to £42.9 million (30 June 2013: £39.7 million) when assets under development are considered. Average rental growth achieved on rent reviews completed to 31 October 2013 showed an annualised rate of 2.4 per cent., matching that achieved for 2012.

#### ***Outlook***

The number one priority for the Board is to return the Company to full dividend cover at the earliest opportunity. A combination of continuing to purchase assets that yield a satisfactory surplus over the Group's marginal cost of debt, managing the existing portfolio to create added value and income, and agreeing rental increases at review will serve to facilitate this primary objective.

The operating and financial environment remains very positive and the Group is, in the Board's opinion, ideally placed to provide the new modern specialist premises demanded by the healthcare professionals who are our tenants.

#### **(b) PPP**

For the year to 31 December 2012, PPP reported gross rental income of £13.9 million. Deducting administration costs of £1.1 million and net finance costs of £10.3 million, gives a profit before tax and revaluation movements of £2.5 million. On 31 December 2012 PPP's net debt was £179.8 million.

The investment property portfolio as at 31 October 2013 (independently valued by Lambert Smith Hampton) stood at £233 million, and the contracted rent roll currently stands at £14.3 million.

### **6. CAPITAL RESOURCES**

During 2013, the Company has completed a number of debt related transactions:

- on 31 January 2013, PHP repaid in full its £27 million loan facility provided by AIB; and
- on 25 March 2013, having previously served notice to Aviva to refinance the debt assumed with the AMP acquisition, the Company repaid the Aviva debt and entered into a £50 million, four year, interest only revolving facility provide by Barclays Bank PLC (this facility was increased to £70 million by way of a deed of amendment on 17 May 2013).

On 4 November 2013, a wholly owned subsidiary of the Company, PHP Bond Finance plc, issued £70.0 million of floating rate guaranteed secured bonds. The proceeds from this issue will be used for general corporate purposes and/or to repay existing indebtedness of the Group.

Following the above transactions, as at 4 November 2013, debt facilities available to the Group totalled £486.2 million, of which £75.0 million is represented by the Retail Bonds, £70.0 million is represented by the secured bonds issued on 4 November 2013, £336.2 million is on a term loan basis and £5 million is available on an overdraft basis.

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Taking into account drawn debt of approximately £402.4 million at 4 November 2013 and further commitments of approximately £13.8 million, this leaves approximately £70 million of available debt facilities to allow the Group to continue with its acquisition policy. As at 4 November 2013 the Group's LTV ratio was 57.8 per cent. The Group's interest cover for the 12 months to the last interest payment date, being 30 September 2013, was 1.5 times.

The Group's banking facilities do not include a maximum consolidated LTV ratio, but separate debt facilities have specific maximum LTV ratio covenants ranging from 60 per cent. to 70 per cent.

As detailed in section 3 above, the existing PPP debt facilities to be assumed under the Acquisition are expected to total £178.4 million and comprise a number of individual loans provided by Aviva, each secured against a specific property asset. The loans are long term, fixed rate facilities with terms ranging from 22 years to 30 years from inception of the loan and they have a current contracted interest rate ranging from 5.33 per cent. to 6.09 per cent. Facility covenants include minimum levels of debt service (interest and capital repayments) cover by rental income (DSCR). The DSCR varies across the separate loans with a range of 91.7 per cent. to 104 per cent.

The Group is in discussions with a wide range of lenders and investors with a view to expanding its range of debt providers and increasing its available facilities. In particular the Company believes that the debt capital markets will become an increasingly important source of finance for the Group. The acquisition of PPP and increased size of the overall portfolio should expand the range of financing options available to the Group. Any additional facilities will be used to help fund further investment in the Group's property portfolio.

## **7. ADMISSION TO TRADING OF CONSIDERATION SHARES**

Applications will be made to the FCA and to the London Stock Exchange, respectively, for the Consideration Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities.

Subject to the conditions to the Acquisition having been satisfied it is expected that Admission of the Initial Consideration Shares will become effective at 8.00 a.m. on or around 3 December 2013.

The Existing Ordinary Shares are already admitted to the Official List, the London Stock Exchange's main market for listed securities and to CREST.

## **8. GENERAL MEETING**

You will find set out at the end of this document a Notice of General Meeting convening a General Meeting to be held on 2 December 2013 at 10.00 a.m. at the Company's offices at Ground Floor, Ryder Court, 14 Ryder Street, London, SW1Y 6QB. The full text of the Notice of General Meeting is set out in Part 14 of this document.

At the General Meeting, the Resolutions will be proposed to:

- approve the Acquisition and to authorise the Directors to implement the Acquisition, such resolution being required as the Acquisition constitutes a Class 1 transaction for the Company for the purposes of the Listing Rules;
- grant the Directors authority pursuant to section 551 of the Companies Act to allot Ordinary Shares generally and in connection with the Acquisition;
- disapply where relevant statutory pre-emption rights set out in section 561 of the Companies Act; and
- grant authority for the Company to purchase up to 10 per cent. of the enlarged Ordinary Share capital after Completion in the market.

## **9. ACTION TO BE TAKEN IN RESPECT OF GENERAL MEETING**

You will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting in person, it is important that you complete and return the

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Form of Proxy in accordance with the instructions printed on it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, so as to arrive no later than 10.00 a.m. on 30 November 2013. Completion and return of the Form of Proxy will not preclude you from attending the General Meeting in person, if you so wish and are entitled.

You may also submit your proxies electronically using the reference number, card ID and account number on the Form of Proxy. If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to ID RA19 so that it is received by no later than 10.00 a.m. on 30 November 2013.

#### **10. RISKS AND ADDITIONAL INFORMATION**

Shareholders' attention is drawn to the risks and additional information contained in the summary and risk factors sections of this document. Shareholders are advised to read the whole of the document and not rely only on the summary information presented in this letter.

#### **11. RECOMMENDATION**

**The Board considers the Acquisition and the passing of the Resolutions to be in the best interests of Shareholders as a whole.**

**Accordingly, the Board recommends unanimously that Shareholders vote in favour of the Resolutions, as each of the Directors has irrevocably undertaken to do in respect of his own beneficial holding, to the extent that he has any such holding, which together amount to 4,707,623 Ordinary Shares, representing approximately 4.8 per cent. of the Ordinary Shares in issue as at 14 November 2013 (being the last practicable date prior to the publication of this document).**

**Shareholders should also be aware that if the Resolutions to be proposed at the General Meeting are not passed, the Acquisition will not complete.**

Yours sincerely,

**Graeme Elliot**  
*Chairman*

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## **PART 2**

### **PRINCIPAL TERMS AND CONDITIONS OF THE ACQUISITION AGREEMENT**

#### **1. ACQUISITION AGREEMENT**

The Acquisition Agreement was entered into on 14 November 2013 between the Sellers and the Company, pursuant to which the Company has agreed to purchase the entire issued share capital of Prime Public Partnerships (Holdings) Limited.

In addition, at Completion the Company and the Sellers will enter into a tax deed pursuant to which the Sellers provide the Company with certain customary tax related covenants relating to the PPP Group's tax affairs prior to Completion.

#### **2. CONSIDERATION**

Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire the entire issued share capital of Prime Public Partnerships (Holdings) Limited for an estimated consideration of approximately £41.1 million, representing the expected net asset value of the PPP Group at Completion, to be satisfied by the issue to the Sellers of new Ordinary Shares at a price of 320 pence per share, as follows:

- 12,577,771 Initial Consideration Shares will be issued at Completion;
- up to 513,378 Further Consideration Shares may be issued following preparation of completion accounts, based on the actual net asset value of the PPP Group at Completion; and
- 235,475 Further Consideration Shares may be issued subject to the amendment of a PPP Portfolio property lease within 12 months of Completion.

If all the Further Consideration Shares are so issued, the final consideration would be equal to approximately £42.6 million.

The actual net asset value of the PPP Group at Completion will be determined from completion accounts to be prepared by the Sellers and agreed by the Company. For the purposes of the completion accounts the PPP Portfolio will be valued at approximately £233 million and the indebtedness of the PPP Group to Aviva at Completion will be included as a liability in the completion accounts together with an agreed mark-to-market provision of £13.7 million.

The Consideration Shares will, when issued and fully paid, rank equally in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions made, paid, or declared, if any, by reference to a record date after the date of their issue.

Each of the Sellers has entered into lock up arrangements under the Acquisition Agreement pursuant to which they have undertaken, subject to certain exceptions, not to sell or dispose of their holding of Consideration Shares for a period of 18 months following Completion, save that one of the Sellers is entitled to sell Consideration Shares to a value of £1 million in this period.

#### **3. CONDITIONS AND COMPLETION OF THE ACQUISITION**

Completion under the Acquisition Agreement is conditional upon:

- (a) the approval of this Prospectus by the FCA;
- (b) the passing at the General Meeting of the Resolutions; and
- (c) Admission of the Initial Consideration Shares becoming effective.

In the event that such conditions are not satisfied by 31 December 2013, the Acquisition Agreement will terminate with immediate effect. The FCA has approved this Prospectus. The General Meeting will take place on 2 December 2013 and, subject to the Resolutions being passed, Admission of the Initial

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Consideration Shares is expected to occur on or around 3 December 2013. Completion of the Acquisition will occur at 8.00 a.m. (or at such other time) on the Business Day on which such Admission occurs.

#### **4. WARRANTIES AND INDEMNITIES**

The Acquisition Agreement contains certain customary covenants to title and certain operational warranties given by the Sellers. The warranties include, amongst other things, property, accounting and financial, contractual and taxation matters.

All warranty claims under the Acquisition Agreement are subject to certain monetary limitations. The maximum aggregate liability for a breach of warranty relating to title to the shares of the PPP Group and the PPP Portfolio is limited to an amount equal to approximately £41.1 million. The maximum aggregate liability for a breach of all other warranties is limited to £200,000.

All warranty claims under the Acquisition Agreement and Tax Deed claims are subject to certain time limitations and such claims, other than a warranty claim relating to taxation or a Tax Deed claim, must be notified within 2 years following the date of Completion. A warranty claim relating to taxation or a Tax Deed claim, must be notified within 7 years following the date of Completion.

As well as the time and monetary limitations described above, the Acquisition Agreement also contains certain other customary exclusions and limitations.

In connection with the warranties in the Acquisition Agreement and the covenants on the Tax Deed, the Company has taken out an insurance policy with Allied World Assurance Company (Europe) Limited. The warranty and indemnity insurance policy provides cover for breach of such warranties or covenants for claims above £200,000 and up to £15 million, subject to certain limitations.

#### **5. TERMINATION OF THE ACQUISITION AGREEMENT AND RIGHT OF RESCISSION**

In the event that the conditions referred to in paragraph 3 above are not satisfied by 31 December 2013, the Acquisition Agreement will terminate with immediate effect.

Before Completion, the Company may rescind the Acquisition Agreement if:

- (a) it becomes aware that any of the certificates of title relating to the PPP Portfolio and/or the Warranties are untrue, inaccurate or misleading in any material respect or have been breached in any material respect; or
- (b) the Sellers are in breach of any term of the Acquisition Agreement in any material respect.

#### **6. ADDITIONAL AGREEMENTS**

##### **Development Pipeline Agreement**

Under a five year development pipeline agreement to be entered into by PHP and Prime PLC, Prime PLC undertakes to offer all primary care projects to be developed by it (other than those relating to NHS LIFT or other joint ventures) on a first refusal basis to PHP. PHP will also grant Prime PLC the first refusal right to tender for development consultancy services in relation to any future development of a PPP Portfolio property. The agreement contains certain provisions for PHP to support future Prime PLC development bids where agreed and for Prime PLC and PHP to work together on certain other agreed development projects. The development pipeline agreement will be entered into on completion of the Acquisition Agreement.

##### **St. Helens property purchase**

Pursuant to the Acquisition Agreement the freehold property owned by Prime Infrastructure Management Services Limited, a Prime Group company, located at Fingerpost Health Care Centre, Atlas Street, St. Helens will be acquired by PHP for a purchase price of £500,000 payable in cash. The purchase of the property at St. Helens will complete on Completion.

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## PART 3

### INFORMATION ON THE GROUP

#### 1. OVERVIEW

The Company is the parent company of a group of companies which specialise in the ownership and development of freehold or long leasehold interests in modern purpose-built primary healthcare facilities located in the United Kingdom only, the majority of which are leased to GPs, NHS bodies and other associated healthcare users.

The Group's property portfolio comprises primary healthcare facilities in the UK, both completed and committed, which are primarily let to GP surgeries, NHS bodies and pharmacy operators. The Group is advised by the Joint Advisers.

The information in this Part 3 is based on the financial information in the audited consolidated financial statements of the Group for the year ended 31 December 2012 as well as the unaudited financial information of the Group for the six months ended 30 June 2013. As at 30 June 2013 the Group held 186 primary healthcare assets, 180 completed properties and forward funding commitments for a further six, with a total portfolio value of approximately £660 million, generating an annualised rental roll of approximately £39.7 million per annum. Since 30 June 2013 the Group has acquired 17 further assets.

All of the Group's completed properties are held for long-term investment. The Company's strategy is to acquire the freehold and long leaseholds of mainly modern, purpose built primary healthcare properties on the basis that each property purchased by the Company will have been evaluated for its income and asset value growth potential.

#### 2. HISTORY AND DEVELOPMENT

The Company was founded by Managing Director, Harry Hyman in 1994 and incorporated in 1995 following the purchase of a small portfolio of primary care premises.

The Company was listed on AIM in 1996 and was admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 5 November 1998. The Company converted to become a REIT on 1 January 2007.

On 6 October 2009, the Company announced the successful completion of the issue of 26,086,956 new Ordinary Shares through a firm placing and placing and open offer. The shares were issued at 230 pence each, raising net proceeds of approximately £57.5 million.

On 8 February 2010, the Company announced the acquisition of Sinclair Montrose Properties Limited ("SMPL") which comprised a portfolio of fourteen purpose built medical centres located across the UK. The consideration for the entire issued share capital of SMPL totalled £23.5 million and was funded from the Group's cash resources.

On 23 June 2010, the Company announced the acquisition of Health Investments Limited ("HI"). The HI portfolio comprised of 14 primary care properties and was acquired along with existing debt of approximately £28.1 million. The net consideration paid for the entire issued share capital of HI was £11.7 million funded by the issue of 1,005,153 ordinary shares at a value of 290 pence per share and approximately £8.8 million in cash.

In 2011, the Group completed the acquisition of eight properties for a total of £45.7 million. The consideration was funded by a combination of existing cash resources and new debt facilities.

On 23 July 2012 the Company issued £75,000,000 worth of 5.375 per cent. bonds due 23 July 2019 on an unsecured basis.

On 13 December 2012, the Company announced the acquisition of AMP. The AMP portfolio comprised of 11 completed, let investment properties and three further assets that were under construction and due to



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be completed in 2013. The portfolio was acquired with existing debt of £49.8 million. The net consideration paid for the entire issued share capital of AMP was £10.2 million, funded by the issue of 1,231,395 ordinary shares at a value of 342 pence per share and £6.02 million in cash. £1.8 million of the cash consideration is deferred until the completion of the assets under construction.

In addition to the acquisition of AMP, the Group completed the acquisition and took delivery of a further seven primary care properties in 2012 and a further standing let investment in 2013 for a total consideration of £43.2 million funded by a combination of existing cash resource and debt drawn from existing banking facilities.

On 12 June 2013, the Company announced the successful completion of the issue of 21,746,032 new Ordinary Shares through a placing, open offer and offer for subscription. The shares were issued at 315 pence each, raising net proceeds of approximately £65.8 million.

On 4 November 2013, PHP Bond Finance plc issued £70,000,000 floating rate secured bonds due 2025 guaranteed by the Company.

The Group currently has contracted commitments to acquire seven assets upon completion of their development. The total cost to the Group of these is £30.2 million, of which £13.8 million is still to be paid by the Group.

### **3. PRINCIPAL ACTIVITIES AND MARKETS**

The principal activity of the Group is the generation of rental income and capital growth through the acquisition and development of primary healthcare property in the United Kingdom leased principally to GPs, NHS bodies and other associated healthcare users. The Group's principal activities are carried out exclusively within the United Kingdom.

There are three main areas of business undertaken by the Group:

- Acquisitions: the purchase of completed, standing let, purpose built medical centres in the open market.
- Development: working with specialist development partners to develop, finance and acquire new primary care assets to be constructed.
- Proactive Management: adding value to the existing portfolio through rent reviews and expansion and/or modification of existing premises and lease re-gearing to maximise the investment returns, for the benefit of both shareholders and tenants.

The Group looks to minimise any risk it faces with regard to development activities, working closely with specialist primary care developers to create new investments.

The Group will not commit funding to a property development until such development has at least an approved planning consent and an agreement for lease with the GP tenants in place, together with an agreed form lease which is supported by confirmation from the district valuer of the rent to be reimbursed to the GP surgeries.

Approximately 71 per cent. of the Group's rental income is derived from properties leased to GPs whose rental and premises costs are reimbursed to them under the 2004 Costs Directions and the 2013 Costs Directions. The Group also receives approximately 19 per cent. of its rent from NHS bodies leading to approximately 90 per cent. of total rental income deriving directly or indirectly from the NHS.

### **4. RENTAL INCOME**

The Group's rental income has the following characteristics:

- The Group enjoys the benefit of a strong underlying tenant covenant on its properties (relative to the UK property market), as the NHS effectively reimburses approximately 90 per cent. of the rent roll as at 30 June 2013.
- Substantially all the remaining rent roll derives from pharmacies adjacent to or within the primary care facilities, which the Directors consider represent strong covenants due to their close proximity

to the primary care facility. The Group's portfolio of investment properties was 99.7 per cent. let as at 30 June 2013.

- As at 30 June 2013, gross contracted rents, including forward purchase commitments stood at £39.7 million an increase of 2.1 per cent. from 30 June 2012 driven by acquisitions, rent reviews and asset management projects.
- The Group achieved weighted average rental growth on rent reviews completed in the first six months of 2013 of 2.3 per cent. per annum.
- Approximately 95 per cent. of the Group's rent roll is subject to triennial rent review and where these are reviewed to open market, are negotiated between the Group and the District Valuer who acts for the GPs or other NHS related tenants.
- The majority of the Group's occupational leases contain upward or effectively upward only rent review clauses i.e. where the review is triggered by the landlord only. A total of 15 per cent. of the Group's rent roll has fixed rental uplifts or is formally linked to the RPI with the remainder being reviewed to market rents.
- Rent reviews are based primarily on precedents from other medical centres and build-cost inflation, rather than on a rental valuation based on comparable evidence for other nearby non-medical commercial property. In the current general property environment, the different basis for primary care property rents leads the Directors to believe that rent review prospects are better for primary care property than for the wider, non-medical, commercial property markets.
- The average lease length of the Group's portfolio as at 30 June 2013 was 15.6 years.
- The Directors believe that these factors differentiate the primary care property market from the wider commercial property market, shielding the Group's portfolio from the worst effects of any continuing economic downturn.
- The Directors believe that the Company's earnings are further insulated from market movements as, unlike with other commercial property, speculative (unlet) development rarely takes place in the primary care property sector, minimising vacant space and the potential for reductions in rental and property values.

## 5. PROPERTY PORTFOLIO

The Group's portfolio of modern purpose built primary care assets is diversely spread across the United Kingdom. As at 30 June 2013 the Group held 186 primary healthcare assets, 180 completed properties and forward funding commitments for a further six, all with completion dates anticipated within the next 12 months. The portfolio was independently valued at 30 June 2013 at an average net initial yield of 5.71 per cent. (31 December 2012: 5.72 per cent.). The underlying longevity of the income, coupled with the strength of covenant coming from the NHS funding for the majority of the rent roll has led to investment yields being stable and firming as investors demand for long term, secure income increases.

Geographical region	Number of assets	Value/cost <sup>(1)</sup> £ million	Rent roll <sup>(1)</sup> £ million
North	41	159.2	9.6
Midlands	43	144.8	8.7
South East	61	189.0	11.4
South West	8	23.4	1.4
Wales	19	86.5	5.2
Scotland	14	57.7	3.4
<b>Total</b>	<b>186</b>	<b>660.6</b>	<b>39.7</b>

(1) unaudited.

Since 30 June, 2013, the Group has acquired a further 17 assets located across the United Kingdom with a total cost of £48.7 million and adding a further approximately £3.0 million to the Group's contracted annual rent roll.



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## **6. STRATEGY**

All of the Group's completed properties are held for long-term investment. The Group's strategy is to acquire the freehold and long leaseholds of mainly modern, purpose built primary healthcare properties on the basis that each property purchased by the Company will have been evaluated for its income and asset value growth potential.

## **7. MARKET OVERVIEW, TRENDS AND COMPETITION**

There are approximately 43,000 GPs and approximately 10,000 practices in the UK and one million patient visits to GP premises every working day. The Company's estimated market share of all primary care properties in the UK as at 31 December 2012 was approximately 2 per cent., with a total of approximately 1.82 million patients from the UK population registered to its medical centres. GPs typically lease their properties, a structure which is likely to remain popular as it facilitates a flexible solution to property needs, provides ease of assignability between partners, and enables GPs to maintain stability and control of their own destiny.

The market for the Group is the primary healthcare property market in the UK. The demand for modern, fit for purpose medical centre properties is being driven by a market shift from secondary care (hospitals) towards primary and community care as encouraged by the Government. The Directors believe that the current economic conditions give the Group the opportunity of buying properties with relatively stable yields at historically low finance rates.

The Group's and the Joint Advisers' long term trading relationships with developers have resulted in a quantifiable pipeline of investment opportunities. The Board remains confident in the outlook for primary care property, and believes that despite the current weakness in the wider commercial property market, the specialist nature of the primary care sector and the continued demographic and political drivers behind the underlying provision of primary care will result in continued investment opportunities on which it can capitalise. Further, the combination of historically low interest rates and the stability of rental yields has widened the positive yield gap (rental yields compared to financing yields) resulting in investments made in the current climate being, in the Board's view, likely to have an immediate and positive impact on the Group's cashflow and returns on capital.

### **Primary care**

Within healthcare, the traditional NHS model has revolved around GPs as the gatekeepers to specialist services located in large centralised hospitals. Increasingly, however, technological developments are reducing the size and complexity of the equipment required to diagnose and treat many illnesses and injuries. Combined with specialist GP training, this is allowing more procedures and diagnostics to be performed in community primary care facilities rather than in centralised major facilities such as hospitals, increasing patient access and choice, reducing costs and increasing efficiency. As a result of this there is a stable demand for modern, specialised, fit for purpose premises from which primary care and ancillary services can be efficiently delivered.

UK government policy reflects this changing landscape. The 2006 White Paper "Our Health, our care, our say" restated the 2002 Wanless Report rationale and intent for increased investment in primary care and integration between primary care and secondary care, and paved the way for the transition of certain therapeutic functions into primary care. This rationale was rearticulated in Lord Darzi's report in June 2008.

The HSC Act reinforced the primacy of care by transferring budgetary and commissioning responsibilities in England to GPs and local clinicians through the establishment of clinical commissioning groups. The Directors believe that this shift in the responsibility for commissioning and funding patient care will lead to an increased number of opportunities to fund and acquire new medical centre properties as GPs and clinicians look to provide more care facilities in local communities.

### **The Health and Social Care Act 2012 and the abolition of Primary Care Trusts**

The National Health Service (Residual Liabilities) Act 1996 (as amended) created what is commonly referred to as the "Residual Liabilities Regime" (the "RL Regime"). Before the introduction of recent

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legislative changes (explained further below), the RL Regime was regarded by those who relied upon it as equivalent to a Secretary of State undertaking to provide a secure destination for a Primary Care Trust's ("PCT") liabilities if a PCT ceased to exist. However, it is not a Secretary of State guarantee per se (and has never been so).

PCTs were abolished on 1 April 2013 pursuant to the Health and Social Care Act 2012 (the "HSC Act") which received royal assent on 27 March 2012. As a result of the HSC Act (and consequent amendments to the NHS Act 2006), the RL Regime will only apply to Special Health Authorities. The Secretary of State used new powers under the HSC Act to transfer all of the property, rights and liabilities of PCTs to certain "Permitted Transferees" (see further below) on 1 April 2013 and this included all of the PCT leases within the PHP portfolio.

#### **Status of PHP Leases following the abolition of PCTs**

Pursuant to "transfer schemes" made under the HSC Act, all of PHP's former PCT leases ("PHP Leases") have been transferred to NHS Property Services Limited ("NHS PS"). The transfers occurred irrespective of any alienation provisions in the relevant leases which might otherwise have prevented them.

NHS PS is a limited liability company wholly owned by the Secretary of State and incorporated in December 2011. It is not possible to predict how this new entity will develop its activities and sphere of interest over the longer term.

#### **Impact of changes to the RL Regime**

The RL Regime will not be available to PHP going forward save where it contracts with a Special Health Authority (which is the only entity which the RL Regime will continue to apply to). There is no other legislative protection for the PHP Leases which is equivalent to that offered by the RL Regime.

In recognition of this reduction in protection, the Department of Health published a 'Letter of Explanation' (the "Letter"), dated 2 April 2013. The Letter seeks to give assurances to parties who have been subject to a transfer scheme involving a transfer of assets, rights and liabilities from a PCT to NHS PS. In summary, it confirms the Secretary of State's commitment to NHS PS and that it would be inconceivable for the Secretary of State not to take steps to protect NHS PS' counterparties if NHS PS were to become insolvent. The Letter cannot be relied upon. It is not addressed directly to those who have been subject to the relevant transfer schemes and the Department of Health has refused to address to such persons.

The Letter refers to the fact that the Secretary of State has entered into an irrevocable indemnity (the "Indemnity") in favour of NHS PS which ensures the discharge of all valid payment obligations of NHS PS arising from any properties which have transferred to NHS PS for such time as NHS PS is head tenant. However, a copy of the Indemnity has not been made available and it is therefore not possible to assess the level of protection offered by the Indemnity and it is not possible to rely on it.

#### **Rent Reimbursement under the Costs Directions**

PCTs were previously responsible for reimbursing GPs' rent under the 2004 Costs Directions. The responsibility for reimbursement has now been transferred to the NHS England (in accordance with The National Health Service (General Medical Services – Premises Costs) Directions 2013).

NHS England was established on 1 October 2012 and is wholly funded by Government. NHS England's full statutory duties and responsibilities commenced on 1 April 2013. It is responsible for commissioning primary care and other specialist services and for funding and supporting Clinical Commissioning Groups, who have taken over the remaining commissioning functions of PCTs. NHS England is an Executive Non-Departmental Public Body and as such, the RL Regime does not apply to it.

The 2013 Costs Directions contain provisions that state that if GPs are already receiving rent reimbursement under the 2004 Costs Directions immediately before the 2013 Costs Directions come into force, then NHS England must continue to make those payments as if the 2004 Costs Directions continued to apply.

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There are some changes pursuant to the 2013 Costs Directions which could lead to the GPs having to fund a shortfall between the rent they must pay under the terms of their leases and the amount they can recover under the 2013 Costs Directions. This could be seen as a weakening of the covenant strength of the tenants in respect of this shortfall. The main circumstances which could bring this about are:

- (a) GPs will only be reimbursed for the lower of the Current Market Rental (“CMR”) and the actual rent payable under the terms of the lease.
- (b) Any variation to any lease, whether or not it relates to the rent payable under that lease, will trigger a re-assessment of the CMR, which could be downwards and would reduce the amount of reimbursement the GPs can apply for.
- (c) Rent reviews must be settled between the landlord and tenant before the District Valuer assesses the level of the CMR. This assessment may not be the same as that agreed between the landlord and tenant.

However, if there is no difference between the CMR and the lease rents then these circumstances will not arise.

### **The UK primary care property market**

The Company operates in a sub-section of the UK commercial property market which is relatively non-cyclical. Statistics from the Investment Property Databank (“IPD”) indicate that Primary Care, a major constituent of the IPD Healthcare Index, provided an annual return of 6.3 per cent. per annum over the five years to December 2011 which compared to minus 0.7 per cent. per annum for the IPD All Properties Index. According to IPD the ‘peak to trough’ comparative fall in property values over the three years to December 2011 is 34.5 per cent. for general commercial property, 15.8 per cent. for residential and just 4.4 per cent. for healthcare.

Primary care property is showing a positive yield gap above underlying funding rates. Average investment yields in the sector are approximately 5.8 per cent. which shall be compared to 12 year gilt yields at 2.84 per cent. (as at 6 November 2013), 10 year sterling swap rates of 2.58 per cent. (as at 7 November 2013) and three month LIBOR at 0.52 per cent. (as at 5 November 2013). Given this backdrop, the Directors believe the current positive yield gap provides an opportunity for the Company to acquire further assets in the primary healthcare property market that will be accretive to its earnings and profitability.

### **Competition**

The Company’s main competitors include Medix Fund Ltd and Assura Group Limited, both listed companies, and a number of unquoted companies including GPI Ltd (part of the GP Group). Whilst the Directors believe that there is competition in the sector, the Board views the Company as one of a few listed entities that focuses purely on investment, a model which enables the Joint Advisers to focus on a specific core business and which offers downside protection relative to competitors during periods of economic weakness.

## **8. JOINT ADVISERS**

The Group is managed by the board of directors of the Company. The Group has no employees. The Company appoints experienced advisers to provide property management, financial management and administrative services to the Group. Nexus and JOHCM (together, the “**Joint Advisers**”) have been appointed as advisers to the board of directors of the Company with regard to property management, financial management and administrative services.

The relationship between the Company and the Joint Advisers is governed by the Advisory Agreement and reflects the obligations of the Board under the Listing Rules, specifically LR 9.2.20 in relation to the appointment of and delegation of tasks to external advisers.

The Nexus group is a group of UK companies engaged in the provision of independent advisory and financial services to organisations operating in the public and private sectors, with particular emphasis on health, education and property. Nexus identifies suitable properties for the Group to acquire, negotiates the terms of purchase of those properties and provides property management services on behalf of the Group.

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All acquisitions and disposals, however, are undertaken only following the exclusive approval of the Board following a review of proposals presented by Nexus. In addition, matters such as changes relating to the capital structure of the Company, major capital projects, approval of operating budgets, risk management and treasury policies are documented as matters reserved for the Board. Harry Hyman is a director and shareholder of Nexus.

JOHCM (a wholly owned subsidiary of J O Hambro Capital Management Holdings Limited (“Holdings”), in turn an indirect wholly owned subsidiary of BT Investment Management Limited, incorporated in Australia and listed on the Australian Securities Exchange), provides administrative and accounting services to the Group and is Company Secretary. James Hambro is chairman of Holdings. JOHCM provides investment management services to open ended investment companies, segregated mandates and other public funds and is authorised and regulated by the Financial Conduct Authority in the conduct of its investment business.

On 26 September 2013, the Board announced that it has agreed revised arrangements in respect of the provision of administrative and accounting services. Under the revised agreement Nexus will assume responsibility for providing services previously supplied by JOHCM, with effect from 30 April 2014.

Further details of the agreement governing the relationship between the Company and the Joint Advisers, the amendment of the agreement and fees payable are set out in paragraph 15.4 of Part 11 of this document.

## **9. INFORMATION ON THE BOARD**

The Directors of the Company and their principal functions are as follows:

<b>Name</b>	<b>Position</b>
Graeme Elliot	Non-Executive Chairman
Alun Jones	Senior Independent Director
Harry Hyman	Managing Director
Mark Creedy	Non-Executive Director
William Hemmings	Non-Executive Director
James Hambro	Non-Executive Director
Dr. Ian Rutter O.B.E.	Non-Executive Director

### **Graeme Elliot – *Non-Executive Chairman***

Appointed to the Board in February 1996, Graeme Elliot is a member of the Audit Committee. He qualified as a Chartered Accountant and was formerly executive vice chairman of Slough Estates PLC, prior to which, he held senior positions at Rio Tinto PLC.

### **Alun Jones – *SID***

Appointed to the Board in May 2007, Alun Jones is the SID and Chairman of the Audit Committee and a member of the Nomination Committee, the Remuneration Committee and the Management Engagement Committee. A Chartered Accountant, Mr Jones retired as a partner from PricewaterhouseCoopers LLP in 2006, having been a previous member of PricewaterhouseCooper’s UK and Global Supervisory Boards. He was a member of the Financial Reporting Review Panel from 2006 to 2011. He is the Vice Chairman of the University for Creative Arts.

### **Harry Hyman – *Managing Director***

Harry Hyman, a Chartered Accountant and corporate treasurer, was appointed to the Board in February 1996. Harry is the founder and Managing Director of the Nexus Group. Nexus has three operating divisions, property, publishing and corporate finance. The Group specialises in health, education and property. He is also a Non-Executive Director of a number of other companies and a director of the Quoted Companies Alliance. PHP has been a member of the Quoted Companies Alliance since 2002.

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**Mark Creedy – *Non-Executive Director***

Appointed to the Board in November 2008, Mark Creedy is Chairman of the Management Engagement Committee and a member of the Audit, Remuneration and Nomination Committees. Mr Creedy is currently Director of Fund Management at UNITE Group PLC overseeing the fund management of the UNITE UK Student Accommodation Fund and UNITE's other joint ventures. He was Managing Director of the property fund management subsidiary of Legal & General Investment Management from September 2002 until the end of 2007 and was previously Managing Director of Chartwell Land PLC, a wholly owned subsidiary of Kingfisher PLC from 1994 onwards. He was a Non-Executive Director of B&Q PLC from 1998 to 2002. Mr Creedy has extensive experience in the UK property industry and has been responsible for the creation and management of a number of sector specialist funds during his time at Legal & General PLC.

**William Hemmings – *Non-Executive Director***

Appointed to the Board on 18 June 2012, Mr Hemmings is Head of Closed End Funds at Aberdeen Asset Managers Limited, a Director of a number of subsidiary companies of Aberdeen Asset Management PLC and an alternate Director of the Irish listed Select Funds International PLC. He has recently been appointed to the Board of the Association of Investment Companies.

**James Hambro – *Non-Executive Director***

Appointed to the Board in February 1996, Mr Hambro is Chairman of James Hambro and Partners LLP, and Chairman of J O Hambro Capital Management Holdings Limited, parent company of J O Hambro Capital Management Limited, the Joint Adviser and Company Secretary. He is also Non-Executive Chairman of Hansteen Holdings PLC.

**Dr. Ian Rutter O.B.E. – *Non-Executive Director***

Appointed to the Board in September 2005, Ian Rutter is Chairman of the Remuneration and Nomination Committees and a member of the Audit Committee and Management Engagement Committee.

He has worked as a GP since 1980 in Shipley, Yorkshire. He is a former CEO of North Bradford and Airedale PCTs. He has worked at the Department of Health as Clinical Lead in the Policy and Strategy Unit and as a Deputy National Director of Primary Care. He was a member of the International Faculty at IHI in Boston USA.

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## **PART 4**

### **INFORMATION ON THE PPP GROUP**

#### **1. OVERVIEW**

The PPP Group specialises in the development and ownership of freehold or long leasehold interests in modern purpose-built healthcare facilities only, the majority of which are leased to GPs and other associated healthcare users. The PPP Group's entire portfolio has been developed by it and companies related to it that previously formed part of the Prime Group.

The PPP Group's property portfolio comprises primary healthcare facilities in the UK all of which are completed and are primarily let to GP surgeries, NHS bodies and pharmacy operators. The PPP Group is externally managed by Prime PLC.

The information in this Part 4 is based on the IFRS historical financial information of PPP for the year ended 31 December 2012 (please see Part 8). As at 31 December 2012, the PPP Group held 56 property assets, with a total portfolio book value of approximately £225 million, generating an annualised rental roll of approximately £13.9 million per annum.

#### **2. HISTORY AND DEVELOPMENT**

The origins of the PPP Group lie in the formation of the Prime Group in 1996 by Richard Laing, Barry Panton, Raymond Gillard and Peterjohn Sargent. Richard Laing is still the Chief Executive of the Prime Group and is also the largest shareholder in PPP Holdings. The oldest property in the PPP Group's portfolio was also the first development undertaken by Prime in 1997. The Prime Group has gone on to deliver 86 primary care assets with a current completed value of circa £500 million, of which 54 assets are currently held by the PPP Group. Prime has been a successful developer of primary care investments nationally over the past 15 years with several properties winning awards and other accolades.

PPP was incorporated in April 2005. Until 31 January 2013, PPP was wholly owned by Prime (GB) Holdings PLC, a Prime Group company, and was part of the Prime Group's investment business. On 31 January 2013, Prime (GB) Holdings PLC transferred the entire issued share capital of PPP to PPP Holdings, as part of a restructuring of the Prime Group. PPP Holdings is a holding company which was incorporated in November 2012.

Key milestones in the PPP Group's development have been as follows:

- 1997 Construction commenced on the PPP Group's first property investment, the Seaton Hirst Primary Healthcare Centre in Northumberland, which remains in the Company's ownership.
- 2000 The Prime Group established a joint venture with Barclays Infrastructure Funds to help finance the growth of its property portfolio, part of which now forms part of the PPP Group's current portfolio.
- 2005 Management initiated a re-structuring of the Prime Group to facilitate the buy-out of Barclays Infrastructure Funds' shareholding in Prime PLC, at the same time establishing the Company as the holder of completed primary care investments (other than those forming part of the NHS LIFT joint ventures) following a re-finance of the debt with Aviva.
- 2013 The PPP Group is demerged from the Prime Group.

#### **3. PRINCIPAL ACTIVITY**

The principal activity of the PPP Group is the generation of rental income and capital growth through investing in primary healthcare property in the United Kingdom leased principally to GPs, NHS bodies and other associated healthcare users. The PPP Group's activities are carried out entirely in the United Kingdom. The PPP Group has no employees and is managed by Prime PLC, a company that forms part of the Prime Group.



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The portfolio of property investments has grown entirely from opportunities developed by the Prime Group in the primary care sector. PPP has been the principal holder of completed primary care investments for Prime PLC, with the exception of those developed as part of its NHS LIFT joint ventures.

Prior to the PPP Group entering into any contracts for development of new assets, other parts of the Prime Group negotiates: (a) terms to acquire a site; (b) agreements to lease with the tenants; (c) rentals reimbursement with the NHS (where applicable); (d) fixed price design and build contract with a building contractor; and (e) all other contracts needed for the PPP Group to complete the construction of the project within a fixed cost and programme framework.

Adding value to the existing portfolio through rent reviews and expansion and/or modification of existing premises and lease re-gearing to maximise the investment returns, for the benefit of both shareholders and tenants.

Approximately 58 per cent. of PPP's income is derived from properties leased to GPs whose rental and premises costs are reimbursed to them under the 2004 Costs Directions and 2013 Costs Directions. PPP also receives approximately 36 per cent. of its rent from NHS bodies leading to approximately 94 per cent. of total rental income deriving directly or indirectly from the NHS. See paragraph 7 of Part 3 of this document for a discussion on the impact of the HSC Act and changes to the Costs Directions.

#### **4. RENTAL INCOME**

The PPP Group's rental income for the year ended 31 December 2012 was £13.9 million. The PPP Group enjoys the benefit of a strong underlying tenant covenant on its properties (relative to the UK property market), as the NHS effectively reimbursed the majority of the rent roll as at 31 December 2012. The remaining rent roll derives from pharmacies adjacent to or within the primary care facilities. The remaining rent is from pharmacies, local authorities and retail.

#### **5. PROPERTY PORTFOLIO**

The PPP Portfolio of modern purpose built primary care assets is diversely spread across the United Kingdom. The PPP Portfolio comprises of 54 assets in total.

#### **6. SELECTED FINANCIAL INFORMATION**

##### **Introduction**

Historical financial information on the PPP Group can be found at Part 8 of this document. Investors should read the whole of this document and use the documents cited above for reference and should not just rely on the summary information contained in this paragraph 6. The documents incorporated by reference contain an extensive review of the financial periods in question on both an operating and a financial level.

The PPP Group comprises Prime Public Partnerships (Holdings) Limited and its wholly owned subsidiary, Prime Public Partnerships Limited. PPP Holdings was incorporated as a privately owned company incorporated in England and Wales in November 2012. PPP Holdings has not filed any financial statements since its incorporation.

As a result, the PPP Group has not historically prepared and published consolidated financial information. For the financial years ended 31 December 2012, 2011 and 2010, PPP was an indirectly wholly owned subsidiary of Prime (UK) Holdings PLC, a privately owned company. On 31 January 2013, a reorganisation was undertaken whereby the entire issued share capital of PPP was transferred to PPP Holdings.

The financial statements of PPP for the above periods were prepared in accordance with UK Generally Accepted Accounting Principles ("GAAP"). For the purpose of this document the following historical financial on PPP has been prepared in accordance with the IFRS accounting policies of PHP.



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### PPP key financial indicators

PPP uses the key financial indicators set out below to review the operations of its property business.

	2012 £'000	2011 £'000	2010 £'000
Rental income	13,867	13,503	12,496
Dividends paid during the period	1,501	949	3,460
Net assets	33,755	28,417	21,488
Investment properties	220,261	200,088	194,313
Investment properties under construction	394	10,368	3,857

### Investment properties

Details of the property portfolio as at each period end.

	As at 31 December 2012 £ million	As at 31 December 2011 £ million	As at 31 December 2010 £ million
Investment properties	220.3	200.1	194.3
Investment properties under construction	0.4	10.4	3.9
Portfolio owned	220.7	210.5	198.2
Portfolio commitments to be funded	0.3	3.6	9.2
Portfolio owned and committed	221.0	214.1	207.4
Closing annual rent roll on owned and leased <sup>(1)</sup>	13,510	12,849	12,310
Number of investment properties	55	54	55

(1) Unaudited.

### Operating and financial review

#### *Year ended 31 December 2012*

PPP held a portfolio of 55 investment properties, including one property under the course of construction which was due for completion in 2013 (now completed).

2012 saw an increase in the value of the investment properties of £10.2 million compared to 31 December 2011. Pre-tax profits fell by £0.1 million compared with 2011 primarily reflecting the impact of increased finance costs, which more than offset higher rental income.

The majority of the properties are leased to NHS backed tenants in the primary healthcare and social care sector on long term leases. The compound annual growth rate of rent reviews due in 2012 was 2.49 per cent.

#### *Year ended 31 December 2011*

As part of the Prime Group's investment business, PPP held a portfolio of 54 investment properties, including one property under the course of construction which was due for completion in 2013. An extension to one of the investment properties in the portfolio was completed during the year.

2011 saw an increase in the value of the investment properties of £12.3 million compared to 31 December 2010. Pre-tax profits fell by £1.4 million compared with 2010 reflecting higher administrative expenses and finance costs, together with a lower gain on revaluation of the property portfolio, which more than offset higher rental income and the income from the disposal of land and properties in the period.

The majority of the properties are leased to NHS backed tenants in the primary healthcare and social care sector on long term leases. The compound annual growth rate of rent reviews due in 2011 was 3.5 per cent.

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### ***Year ended 31 December 2010***

As part of the Prime Group's investment business, PPP held a portfolio of 55 investment properties, including one property under the course of construction which was due for completion in 2011. Also under construction at the year-end was an extension to one of the investment properties in the portfolio. One property completed during the year and transferred to investment properties.

2010 saw an increase in the value of the investment properties of £13.1 million compared to 31 December 2009.

All of the properties are leased to government backed tenants in the primary healthcare and social care sector on long term leases. The compound annual growth rate of rent reviews due in 2010 was 2.71 per cent.

### **Capital resources and liquidity**

#### ***Borrowings and Financing***

	Facility			Amounts Drawn		
	2012 £'000	2011 £'000	2010 £'000	2012 £'000	2011 £'000	2010 £'000
<b>Current</b>						
Aviva Facility	1,599	1,359	1,149	1,599	1,359	1,149
<b>Non-current</b>						
Aviva Facility	181,692	183,291	184,651	181,692	183,291	184,651
Total	<u>183,291</u>	<u>184,650</u>	<u>185,800</u>	<u>183,291</u>	<u>184,650</u>	<u>185,800</u>

The loans are long term, fixed rate facilities with terms ranging from 22 years to 30 years from inception of the loan and they have a current contracted interest rate ranging from 5.33 per cent. to 6.09 per cent. Facility covenants include minimum levels of debt service (interest and capital repayments) cover by rental income (DSCR). The DSCR varies across the separate loans with a range of 91.7 per cent. to 104 per cent.

### **Dividends and dividend policy**

PPP had no stated dividend policy for the three years under review as it was part of a larger privately owned group.

As set out below, PPP has paid dividends to eligible shareholders during the financial periods under review, being the years ended 31 December 2010, 2011 and 2012.

Year ended 31 December 2012	Year ended to 31 December 2011	Year ended 31 December 2010
£1,501,000	£949,998	£3,460,315

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## PART 5

### OPERATING AND FINANCIAL REVIEW

*The following discussion of PHP's financial condition and results of operations should be read in conjunction with the historical financial information on PHP and the notes related thereto referred to in Part 7 of this document (which have been incorporated by reference in this document). Except as otherwise stated, the financial information included in this Part 5 has been extracted without material adjustment from the financial information referred to in Part 7 of this document. The historical financial information referred to in this discussion has been prepared in accordance with IFRS.*

#### 1. DOCUMENTS INCORPORATED BY REFERENCE

The operating and financial reviews included in the following documents are incorporated by reference in this document:

- PHP's 2010 Annual Report and Accounts;
- PHP's 2011 Annual Report and Accounts;
- PHP's 2012 Interim Report and Accounts;
- PHP's 2012 Annual Report and Accounts; and
- PHP's 2013 Interim Report and Accounts.

#### 2. CROSS-REFERENCE LIST

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference in this document.

##### 2.1 PHP's 2010 Annual Report and Accounts

The page numbers below refer to the relevant pages of PHP's 2010 Annual Report and Accounts:

- |                                  |       |
|----------------------------------|-------|
| ● Results Highlights             | 1     |
| ● Operating and Financial Review | 3-11  |
| ● Property Portfolio Analysis    | 12-13 |
| ● Acquisition Activity           | 14-15 |
| ● Commitments                    | 16-17 |
| ● Group Directors' Report        | 23-27 |

##### 2.2 PHP's 2011 Annual Report and Accounts

The page numbers below refer to the relevant pages of PHP's 2011 Annual Report and Accounts:

- |  |       |
|--|-------|
| ● Chairman's Statement                     | 2-3   |
| ● Managing Director's Review               | 4-19  |
| ● Summary of Group's Financial Performance | 20    |
| ● Director's Report                        | 24-27 |

##### 2.3 PHP's 2012 Interim Report

The page numbers below refer to the relevant pages of PHP's 2012 Interim Report and Accounts:

- |                              |      |
|------------------------------|------|
| ● Chairman's Statement       | 2-4  |
| ● Managing Director's Review | 6-13 |

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●	Commitments	14-15
●	Principal Risks	16
2.4	<b>PHP's 2012 Annual Report and Accounts</b>	
	The page numbers below refer to the relevant pages of PHP's 2012 Annual Report and Accounts:	
●	Chairman's Statement	2-3
●	Managing Director's Review	4-21
●	Summary of Group's Financial Performance	22
●	Director's Report	26-29
2.5	<b>PHP's 2013 Interim Report</b>	
	The page numbers below refer to the relevant pages of PHP's 2013 Interim Report and Accounts:	
●	Chairman's Statement	2-4
●	Managing Director's Review	6-15
●	Principal Risks	16
●	Consolidated Statement of Comprehensive Income	17
●	Consolidated Balance Sheet	18
●	Consolidated Cash Flow Statement	20
●	Consolidated Statement of Changes in Equity	22
3.	<b>LIQUIDITY AND CAPITAL RESOURCES</b>	
3.1	<b>Cash flow management</b>	
	As part of regular financial management, the Directors review the Group's detailed cash flow projections. These cash flow projections include capital expenditure proposals and take into account bank and other financing facilities available to the Company and assess the cash flow adequacy of the Company on a short, medium and long term basis.	
3.2	<b>Borrowings and financing</b>	
	The Group is funded by equity, debt and retained profits. Cash that is not required for investments is used to repay revolving debt facilities wherever possible, maximising the efficiency of paying down loans that are available to be redrawn as needed. Any cash that is held is normally placed on interest bearing accounts. The Joint Advisers monitor closely the sources of cash as part of the overall management of the portfolio and the payment of liabilities as they fall due. Debt funding has grown in line with increases in the Company's capital base.	
	On 31 January 2013, the Company fully repaid a £27 million loan made provided by AIB. This loan agreement has now been terminated.	
	On 25 March 2013, the Company completed a new £50 million, four year revolving facility with Barclays Bank PLC. This facility was utilised to refinance the debt assumed with the AMP portfolio. This facility was increased to £70 million by way of a deed of amendment on 17 May 2013.	
	Total facilities available to the Company as at 30 June 2013 were £501.7 million, of which £75.0 million was represented by the Retail Bonds, £421.7 million were term loans and £5.0 million was available on an overdraft basis.	

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Provider	Maturity	Facility Maximum <sup>(1)</sup> £ million
RBS (overdraft)	March 2014	5.0
Clydesdale Bank <sup>(2)</sup>	July 2014	50.0
Royal Bank of Scotland/Santander	Mar 2016	175.0
Aviva	Nov 2018	75.0
Aviva	Dec 2022	25.0
Aviva	Jan 2032	26.7
Barclays Bank PLC	March 2017	70.0
Retail Bonds	July 2019	75.0
Total		<u>501.7</u>

(1) As at 30 June 2013.

(2) Repaid and terminated on 18 October 2013.

Further details of the Company's bank facilities can be found in paragraph 15.6 of Part 11.

On 4 November 2013, a wholly owned subsidiary of the Company, PHP Bond Finance plc, issued £70.0 million of floating rate guaranteed secured bonds.

The principal financial covenants in the Company's term loan facilities relate to a maximum LTV ratio and interest cover, which is calculated as the ratio of gross rental income to net interest payable. The maximum allowable levels of the LTV and income cover ratios vary between facilities and range between 60 per cent. and 70 per cent. and 1.3 times and 1.4 times respectively. The Group met all covenant requirements both as at 30 June 2013 and at 30 September 2013.

For each of the financial periods under review, the consolidated group LTV and income cover ratios were as follows:

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
LTV ratio	60.9%	57.8%	57.6%
Interest cover	1.57	2.0	2.1

In June 2013, the Company undertook a placing of 21,746,032 new ordinary shares at a price of 315 pence per share, raising gross proceeds of £68.5 million for deployment into new primary care assets. From the net proceeds of £65.8 million, two of the Group's revolving credit facilities were temporarily repaid in full using £50.3 million from the funds raised. These funds are available to be re-drawn as required for portfolio growth.

### 3.3 Future sources of finance and management of the capital base

The Board's policy is to maintain a strong capital base within the Company so as to maintain investor and creditor protection and to sustain the future development potential of the Company. The Board monitors net assets, gearing, interest cover, LTV ratios and these benchmarks of performance are used to manage and report performance within PHP.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no material changes in PHP's approach to capital management during the operating and financial period under review.

The Board's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation in its operations.

Future sources of finance will be from a combination of debt and equity having regard to the Group's covenants.

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### 3.4 Treasury

The Group's financial instruments comprise its Retail Bonds, bank borrowings, interest rate swaps, investments in financial leases, development loans and some cash and other items such as trade debtors and creditors that arise directly from its property holding operations.

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 Company, which primarily relate to funding, liquidity, interest rate exposure, property and gearing. The Company's policy is to enter into interest rate swaps or caps as necessary to hedge cash flow risk on bank borrowing requirements over the long term. The Company's fixed rate financial assets were represented by finance leases, the final finance lease was redeemed on the disposal of the asset in Withernsea, Yorkshire. The Company's floating rate financial assets comprise cash at bank on which interest is earned at monthly rates and development loans on which interest is typically charged at between 3.5 per cent. above LIBOR and 6 per cent. The other financial instruments of the Company are non interest bearing and are therefore not subject to material interest rate risk.

Interest rate swaps and caps have been entered into at various dates to hedge the Group's exposure to higher interest rates and manage cash flow. The mark to market value fluctuates with movements in term interest rates and, in the case of cancellable swaps, with market volatility. The mark to market valuation of interest rate hedging instruments represent unrealised adjustments and do not affect cash flow.

Further details of interest rate swaps, key funding policies with respect to liquidity and interest rate risks are set out on pages 18 to 20 of the Annual Report and Accounts for the year ended 31 December 2012 and are incorporated in this section by reference.

### 3.5 Equity

PHP has one type of equity being the Ordinary Shares. At 31 December 2012, PHP had 76,034,208 Ordinary Shares issued compared to 68,272,229 Ordinary Shares as at 31 December 2011 and 62,802,333 Ordinary Shares as at 31 December 2010.

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## PART 6

### CAPITALISATION AND INDEBTEDNESS

Set out below is a statement of capitalisation of the Group at 30 June 2013 and indebtedness of the Group at 30 September 2013 (unaudited).

	<b>As at 30 June 2013</b> <b>£ million</b> <b>(unaudited)</b>
<b>Capitalisation</b>	
Share capital – allotted, called up and fully paid	48.9
Share premium	58.8
Capital reserve	1.6
Special reserve	107.2
<b>Capital and reserves<sup>(1)(2)(3)</sup></b>	<b>216.5</b>
	<b>As at 30 September 2013</b> <b>£ million</b> <b>(unaudited)</b>
<b>Indebtedness<sup>(4)</sup></b>	
<b>Current debt</b>	
Secured <sup>(5)</sup>	(11.0)
Unsecured <sup>(6)</sup>	–
<b>Total current debt<sup>(4)</sup></b>	<b>(11.0)</b>
<b>Non-current debt (excluding current portion of long term debt)</b>	
Secured <sup>(5)</sup>	(310.0)
Unsecured <sup>(6)</sup>	(75.0)
<b>Total non-current debt<sup>(4)</sup></b>	<b>(385.0)</b>
<b>Total indebtedness<sup>(4)</sup></b>	<b>(396.0)</b>
	<b>As at 30 September 2013</b> <b>£ million</b> <b>(unaudited)</b>
<b>Net financial indebtedness</b>	
<b>Cash</b>	
Cash and cash equivalents	7.2
<b>Liquidity</b>	
<b>Current financial liabilities</b>	
Current bank debt	(10.0)
Current portion of non current debt	(1.0)
<b>Current financial debt<sup>(4)(5)</sup></b>	<b>(11.0)</b>
<b>Net-current financial indebtedness</b>	<b>(3.8)</b>
Non current bank loans	(310.0)
Bonds issued	(75.0)
<b>Non-current financial indebtedness<sup>(4)</sup></b>	<b>(385.0)</b>
<b>Net financial indebtedness</b>	<b>(388.8)</b>

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**Notes:**

- (1) Capital and reserves excludes retained earnings and cash flow hedging reserve.
- (2) The Group holds a derivative financial instrument portfolio that hedges the cash flows of certain borrowings which are excluded from the above. As at 30 September 2013, the mark-to-model valuation of these instruments was a net liability of £35.9 million. This sum is not reflected in the indebtedness analysis. The cash flow hedging reserve associated with these derivative financial instruments is £18.5 million. The balance of this mark-to-model valuation has been charged to retained earnings.
- (3) There has been no material change to the capitalisation and indebtedness of the Company save for the payment of the first interim dividend of £9.3 million on 1 November 2013 as announced by the Company on 22 August 2013 which has the effect of reducing the Special Reserve by £9.3 million and the initial drawdown of £60 million on the £70.0 million of floating rate guaranteed secured bonds issued on 4 November 2013, payable 2025, drawn to refinance existing indebtedness. The impact of this initial drawdown and repayment of existing indebtedness is to reduce current financial indebtedness by £10.4 million and increase non-current indebtedness by the same amount.
- (4) The Group's debt is shown gross of unamortised issue costs.
- (5) Secured debt relates to the Group's term loans that are secured by fixed and floating charges over properties owned by the Group.
- (6) Unsecured debt relates to the Group's £75 million Retail Bonds.

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## **PART 7**

### **HISTORICAL FINANCIAL INFORMATION ON THE GROUP**

The audited financial statements of the Group for the years ended 31 December 2012, 2011 and 2010, which have been prepared in accordance with IFRS, contained in those parts of the Annual Reports and Accounts of PHP and the interim reports and unaudited financial statements of PHP for periods ended 30 June 2012 and 30 June 2013 are incorporated by reference into this document as detailed in Part 12 of this document.

Ernst & Young LLP of 1 More London Place, London SE1 2AF is a member of the Institute of Chartered Accountants in England and Wales and has issued unqualified audit opinions on the consolidated financial statements of PHP and its subsidiaries included in the Annual Report and Accounts of PHP for the years ended 31 December 2012, 2011 and 2010.

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## **PART 8**

### **HISTORICAL FINANCIAL INFORMATION ON THE PPP GROUP**

This Part 8 contains:

- in Section A, historical financial information of PPP for the years ended years ended 31 December 2012, 2011 and 2010 prepared in accordance with the IFRS accounting policies of PHP; and
- in Section B, an accountant's report in respect of the historical financial information of PPP as set out in Section A.

The PPP Group comprises Prime Public Partnerships (Holdings) Limited and its wholly owned subsidiary, PPP Limited. PPP Holdings was incorporated as a privately owned company incorporated in England and Wales in November 2012. PPP Holdings has not filed any financial statements since its incorporation.

As a result, the PPP Group has not historically prepared and published consolidated financial information. For the financial years ended 31 December 2012, 2011 and 2010, PPP was an indirectly wholly owned subsidiary of Prime (UK) Holdings PLC, a privately owned company. On 31 January 2013, a reorganisation was undertaken whereby the entire issued share capital of PPP was transferred to PPP Holdings.

The financial statements of PPP for the above periods were prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). For the purpose of this document the following historical financial information on PPP has been prepared in accordance with the IFRS accounting policies of PHP.

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**Section A: Historical financial information on PPP for the years ended 31 December 2012, 2011 and 2010.**

**STATEMENT OF COMPREHENSIVE INCOME**

		<b>31 December 2012 £'000</b>	<b>31 December 2011 £'000</b>	<b>31 December 2010 £'000</b>
	<b>Notes</b>			
Rental income		13,867	13,503	12,496
Other income		–	585	–
<b>Rental and related income</b>	<b>3</b>	<b>13,867</b>	<b>14,088</b>	<b>12,496</b>
Direct property expenses		(14)	(613)	(35)
Administrative expenses		(1,132)	(1,228)	(1,097)
<b>Operating profit before revaluation result on property portfolio</b>	<b>4</b>	<b>12,721</b>	<b>12,247</b>	<b>11,364</b>
Gain on revaluation of property portfolio	<b>9</b>	<b>5,180</b>	<b>5,568</b>	<b>7,555</b>
<b>Operating profit before financing costs</b>		<b>17,901</b>	<b>17,815</b>	<b>18,919</b>
Finance income	<b>5</b>	<b>46</b>	<b>16</b>	<b>68</b>
Finance costs	<b>6</b>	<b>(10,270)</b>	<b>(10,018)</b>	<b>(9,822)</b>
<b>Profit on ordinary activities before taxation</b>		<b>7,677</b>	<b>7,813</b>	<b>9,165</b>
Taxation (charge)/credit		(838)	66	(1,597)
<b>Profit for the year</b>	<b>18</b>	<b>6,839</b>	<b>7,879</b>	<b>7,568</b>
<b>Total comprehensive income for the year net of tax</b>		<b>6,839</b>	<b>7,879</b>	<b>7,568</b>

The above relates wholly to continuing operations.

Throughout the financial years ended 31 December 2012, 2011 and 2010 PPP was an indirectly wholly owned subsidiary of Prime (UK) Holdings PLC, a privately owned company. The financial information has been impacted by historic arrangements with the Prime Group (see note 20) and as a result certain income and expense are not necessarily representative of the income and expenses that would have been reported had PPP been part of the PHP Group. They are not necessarily representative of the income and expenses that may arise in the future following the acquisition by PHP.

Upon acquisition of PPP by PHP, PPP will automatically become part of the PHP REIT tax-exempt group. The financial information of PPP does not take into consideration any impact on the tax assets and liabilities of PPP of becoming part of the PHP REIT tax-exempt group. The tax charges recorded in the income statement have been affected by the taxation arrangements of PPP and within the Prime Group and are not representative of any tax charges that may have been reported if PPP had been part of the PHP REIT tax-exempt group. They are not representative of any tax charges that may arise in the future following the acquisition by PHP.

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## BALANCE SHEET

	Notes	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
<b>Non current assets</b>					
Property, plant and equipment	10	4,127	4,219	4,312	4,404
Investment properties	9	220,655	210,456	198,170	185,066
		<u>224,782</u>	<u>214,675</u>	<u>202,482</u>	<u>189,470</u>
<b>Current assets</b>					
Trade and other receivables	11	2,866	2,841	1,487	3,738
Cash and cash equivalents	12	2,966	8,094	16,154	21,301
		<u>5,832</u>	<u>10,935</u>	<u>17,641</u>	<u>25,039</u>
<b>Total assets</b>		<u>230,614</u>	<u>225,610</u>	<u>220,123</u>	<u>214,509</u>
<b>Current liabilities</b>					
Term loans	15	(1,538)	(1,295)	(1,082)	(874)
Trade and other payables	14	(2,387)	(2,352)	(2,848)	(2,314)
Deferred rental income		(3,278)	(3,190)	(2,986)	(2,738)
		<u>(7,203)</u>	<u>(6,837)</u>	<u>(6,916)</u>	<u>(5,926)</u>
<b>Non-current liabilities</b>					
Term loans	15	(181,211)	(182,749)	(184,045)	(185,126)
Deferred income tax liabilities	13	(8,445)	(7,607)	(7,674)	(6,077)
<b>Total liabilities</b>		<u>(196,859)</u>	<u>(197,193)</u>	<u>(198,635)</u>	<u>(197,129)</u>
<b>Net assets</b>		<u>33,755</u>	<u>28,417</u>	<u>21,488</u>	<u>17,380</u>
<b>Equity</b>					
Share capital	17	1,501	1,501	1,501	1,501
Retained earnings	18	32,254	26,916	19,987	15,879
<b>Total equity</b>		<u>33,755</u>	<u>28,417</u>	<u>21,488</u>	<u>17,380</u>

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## CASH FLOW STATEMENT

		31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
	Notes			
<b>Operating activities</b>				
Profit on ordinary activities before tax		7,677	7,813	9,165
Less: Finance income	5	(46)	(16)	(68)
Plus: Finance costs	6	10,270	10,018	9,822
Operating profit before financing costs		17,901	17,815	18,919
Depreciation		92	93	92
Revaluation gain on property portfolio	9	(5,180)	(5,568)	(7,555)
(Increase)/decrease in trade and other receivables		(25)	(1,354)	2,252
Increase/(decrease) in trade and other payables		123	(292)	1,332
<b>Cash generated from operations</b>		12,911	10,694	15,040
Taxation paid		—	—	—
<b>Net cash flow from operating activities</b>		12,911	10,694	15,040
<b>Investing activities</b>				
Payments to acquire investment properties		(4,566)	(5,959)	(4,547)
Bank interest received		46	16	68
<b>Net cash flow used in investing activities</b>		(4,520)	(5,943)	(4,479)
<b>Financing activities</b>				
Term bank loan repayments		(1,359)	(1,150)	(1,495)
Interest paid		(10,659)	(10,711)	(10,753)
Equity dividends paid	8	(1,501)	(950)	(3,460)
<b>Net cash flow used in financing activities</b>		(13,519)	(12,811)	(15,708)
<b>Decrease in cash and cash equivalents for the year</b>		(5,128)	(8,060)	(5,147)
Cash and cash equivalents at start of year		8,094	16,154	21,301
<b>Cash and cash equivalents at end of year</b>	12	2,966	8,094	16,154

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## STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £'000	Retained earnings £'000	Total £'000
<b>1 January 2010</b>		1,501	15,879	17,380
Profit for the year		—	7,568	7,568
<b>Total comprehensive income</b>		—	7,568	7,568
Dividends paid:				
Dividend for the year ended 31 December 2010 (210.534p)	8	—	(3,160)	(3,160)
Interim Dividend for the year ended 31 December 2010 (20.0p)	8		(300)	(300)
<b>31 December 2010</b>		1,501	19,987	21,488
<b>1 January 2011</b>		1,501	19,987	21,488
Profit for the year		—	7,879	7,879
<b>Total comprehensive income</b>		—	7,879	7,879
Dividends paid:				
Dividend for the year ended 31 December 2011 (63.3p)	8	—	(950)	(950)
<b>31 December 2011</b>		1,501	26,916	28,417
<b>1 January 2012</b>		1,501	26,916	28,417
Profit for the year		—	6,839	6,839
<b>Total comprehensive income</b>		—	6,839	6,839
Dividends paid:				
Dividend for the year ended 31 December 2012 (100.0p)	8	—	(1,501)	(1,501)
<b>31 December 2012</b>		1,501	32,254	33,755

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## **NOTES TO THE HISTORICAL FINANCIAL INFORMATION for the three years ended 31 December 2010, 2011 and 2012**

### **1. GENERAL**

PPP is a UK incorporated private company. The nature of PPP's operations and its principal activity is development and investment in property in the United Kingdom leased principally to GPs, NHS Organisations and other associated health care users.

Throughout the financial years ended 31 December 2012, 2011 and 2010 PPP was an indirectly wholly owned subsidiary of Prime (UK) Holdings PLC, a privately owned company. The financial information has been impacted by historic arrangements with the Prime Group (see note 20) and as a result certain income and expense are not necessarily representative of the income and expenses that would have been reported had PPP been part of the PHP group. They are not necessarily representative of the income and expenses that may arise in the future following the acquisition by PHP.

Upon acquisition of PPP by PHP, PPP will automatically become part of the PHP REIT tax-exempt group. The financial information of PPP does not take into consideration any impact on the tax assets and liabilities of PPP of becoming part of the PHP REIT tax-exempt group. The tax charges recorded in the income statement have been affected by the taxation arrangements of PPP and within the Prime Group and are not representative of any tax charges that may have been reported if PPP had been part of the PHP REIT tax-exempt group. They are not representative of any tax charges that may arise in the future following the acquisition by PHP.

### **2. ACCOUNTING POLICIES**

#### **2.1 Basis of preparation**

The historical financial information has been prepared specifically for the purpose of this document in accordance with the requirements of the PD Regulation and the Listing Rules and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). In accordance with the Listing Rules the financial information has been prepared in accordance with the IFRS accounting policies of PHP. The policies set out below have been consistently applied to all the years presented.

The financial information has been prepared on the historical cost basis, except for investment properties that have been measured at fair value.

The financial information is presented in pounds sterling because that is the functional currency of the primary economic environment in which PPP operates and is rounded to the nearest thousand.

#### ***First time adoption of International Financial Reporting Standards as adopted for use in the EU (IFRS)***

Statutory financial statements of PPP for the years ended 31 December 2010, 2011 and 2012 have been prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). UK GAAP differs in certain respects from IFRS. This financial information is the first PPP financial information to be prepared in accordance with IFRS. PPP's transition date to IFRS for the purpose of this document is 1 January 2010. The principles and requirements for the first time adoption of IFRS are set out in IFRS 1, First-time Adoption of International Financial Reporting Standards.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on PPP's equity as at 1 January 2010 and 31 December 2012 and its profit and comprehensive income for the year ended 31 December 2012 are given in note 19. IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. Where applicable, the exemptions set out in IFRS 1 have been applied by PPP.

#### **2.2 Summary of significant accounting policies**

##### ***Segmental reporting***

PPP is engaged in a single segment of business, being investment in property in the United Kingdom leased principally to GPs, NHS organisations and other associated health care users.

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### ***Investment properties and investment properties under construction***

PPP's investment properties are held for long-term investment. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties and investment properties under construction are stated at fair value based on market data and a professional valuation made as of each reporting date. In the event that it is not possible to reliably measure the fair value of investment properties under construction, these are held at cost with an accompanying note providing explanations. 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. Investment properties under construction where the risk is attached to PPP are held at cost.

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

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

### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and reviewed annually for impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided at rates calculated to write down the cost of the assets, less their estimated residual values, over the remaining useful economic lives as follows:

Long leasehold property: 2 per cent. on straight line.

Property, plant and equipment relates to PPP's long leasehold premises in Worcester.

### ***Impairment of assets***

At each reporting date, an assessment is made as to 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, an estimate is made 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 cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Statement of Comprehensive Income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income.

### ***Income***

Revenue is recognised to the extent that performance has been provided and it is probable that economic benefits will flow to PPP which can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

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#### *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. A rent adjustment is recognised from the rent review date in relation to unsettled rent reviews. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis.

#### *Other income*

Other income relates to the disposal of land and properties in the ordinary course of business and is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

#### *Trade and other receivables*

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that PPP 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.

#### *Restricted cash*

Restricted cash held on deposit represents borrowings prior to construction of a property which are placed in a deposit account with restrictions on when, and for what purpose, the entity can access the funds.

#### *Trade and other payables*

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

#### *Bank loans and borrowings*

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

#### *Borrowing costs*

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

#### *Taxes*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax expense is calculated using the tax rates which have been enacted or substantively enacted by the balance sheet date, adjusted for any tax paid in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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The amount of deferred tax provided is based on expected realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset.

### ***Financial instruments***

#### ***Loans and receivables***

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

#### ***De-recognition of financial assets and liabilities***

##### ***Financial assets***

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

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

Where PPP has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of PPP’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 PPP could be required to repay.

##### ***Financial liabilities***

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

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

#### ***Dividends payable to Shareholders***

Dividends are recognised in the financial information when they were approved by the PPP board of directors.

#### ***Leases – PPP as a lessor***

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

## **2.3 Significant accounting estimates and judgements**

The preparation of the financial information 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

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assumptions that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

(a) ***Estimates***

*Fair value of investment properties*

Investment property includes: (i) completed investment property; and (ii) investment property under construction. Completed investment property comprises real estate held by PPP in order to earn rentals or for capital appreciation, or both.

Investment property under construction is valued at fair value if it can be reliably determined. If a fair value cannot be reliably determined, the investment property under construction is measured at cost.

The market value of a property is deemed, by 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.

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

*Deferred taxes*

In computing the deferred tax on investment properties, it is necessary to make an assessment of how much of the asset's carrying value will be recovered through use of the asset and how much will be realised through eventual sale, as the basis of taxation is different for each component. In making this assessment the entity allocates the proportion of the carrying value that is eligible for capital allowances as being recovered through the use, and the remainder of the carrying value is assumed to be recovered through eventual sale. A different allocation could have a material impact on the deferred tax balance recognised.

*Rent reviews*

PPP's occupational leases include periodic rent review provisions. All reviews are effectively upwards only and either reviewed to open market rent, linked to RPI or subject to a fixed uplift at the review date.

(b) ***Judgements***

*Leases*

PPP has entered into commercial property leases on its investment property portfolio. PPP has determined that it retains all the significant risks and rewards of ownership of the vast majority of the properties, which are leased out on operating leases.

**2.4 Standards adopted during the year**

Where appropriate, the following amendments to IFRS have been adopted in this financial information:

- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of PPP's financial information to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of,

and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. PPP does not have any assets with these characteristics so there has been no effect on the presentation of its financial information.

## 2.5 Standards issued but not yet effective

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of this financial information. Set out below only those which may have a material impact on the financial statements in future periods.

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact PPP's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments: Classification and Measurement. IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of PPP's financial assets, but will not have an impact on classification and measurements of financial liabilities. PPP will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.
- IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. PPP is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

## 3. RENTAL AND RELATED INCOME

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

### PPP as a lessor

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

	Less than one year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
2012	13,203	52,812	161,284	227,299
2011	12,791	52,812	174,487	240,090
2010	12,528	52,400	187,690	252,618
1 January 2010	12,448	51,725	200,893	265,066



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

- (b) There were no contingent rents recognised as income in the years ended 31 December 2010, 2011 and 2012.

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

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

#### 4. OPERATING PROFIT IS STATED AFTER CHARGING

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
Administration expenses by nature:			
Management fees (note 4a)	834	917	788
Directors' fees (note 4b)	—	—	—
Book value of land disposal	—	585	—
Auditors' remuneration for:			
● audit of the UK GAAP financial statements	6	6	5
● taxation services – compliance	—	—	—
Other professional fees	36	58	78
Depreciation	92	93	92
<b>Total</b>	<b>968</b>	<b>1,659</b>	<b>963</b>

##### (a) *Management fees*

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

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
Prime (UK) Investments Limited (2010: Prime (UK) Developments Limited)	834	917	788
	<b>834</b>	<b>917</b>	<b>788</b>

As at 31 December 2012, £nil (2011: £nil) of management fees payable to Prime (UK) Investments Limited were outstanding (2010, 2009: £nil payable to Prime (UK) Developments Limited)

##### (b) *Staff costs*

There were no employees for the year ended 31 December 2012 nor for the years ended 31 December 2011 and 31 December 2010.

#### 5. FINANCE INCOME

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
<b>Interest income on financial assets</b>			
Bank interest	46	16	20
Intercompany interest receivable	—	—	41
Other interest receivable	—	—	7
	<b>46</b>	<b>16</b>	<b>68</b>



## 6. FINANCE COSTS

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
<b>Interest expense and similar charges on financial liabilities</b>			
<b>Interest paid</b>			
Bank loan interest paid	10,206	9,951	9,716
Intercompany interest payable	—	—	34
Bank charges and loan commitment fees	64	67	72
	<u>10,270</u>	<u>10,018</u>	<u>9,822</u>

Net finance costs may be summarised as follows.

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
Finance income (note 5)	(46)	(16)	(68)
Finance costs	10,270	10,018	9,822
Net finance costs	<u>10,224</u>	<u>10,002</u>	<u>9,754</u>

## 7. INCOME TAX EXPENSE

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
<b>Current tax</b>			
Total current tax	—	—	—
Deferred tax	(838)	248	(1,271)
Impact of change in the tax rate	—	(182)	(326)
<b>Total deferred tax (note 13)</b>	<u>(838)</u>	<u>66</u>	<u>(1,597)</u>
<b>Income tax expense</b>	<u>(838)</u>	<u>66</u>	<u>(1,597)</u>

The tax on the entity's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entity as follows:

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
Profit on ordinary activities before taxation	7,677	7,813	9,165
Tax calculated at UK rate of 24.5% (2011: 26.5%) (2010: 28.0%)	1,881	2,070	2,566
Tax effect of:			
Expenses not deductible for tax purposes	4	5	30
Accelerated capital allowances	(1,639)	902	(1,939)
Capitalised interest	(111)	(201)	(361)
Group relief claimed/(surrendered)	413	(110)	1,039
Indexation allowance	(1,386)	(2,418)	(2,606)
Impact of change in the tax rate	—	(182)	(326)
Tax charge	<u>(838)</u>	<u>66</u>	<u>(1,597)</u>

As announced in the March 2012 Budget, the main rate of UK corporation tax was reduced to 24 per cent. from 1 April 2012 and 23 per cent. from 1 April 2013. The reductions were substantively enacted at the balance sheet date and, therefore recognised in these financial statements.

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate to 21 per cent. from 1 April 2014, followed by a further 1 per cent. reduction to 20 per cent. by 1 April 2015. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in this financial information.

## 8. DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2012 £'000	2011 £'000	2010 £'000
Dividend for the year ended 31 December (2012: 100.0p) (2011: 63.3p) (2010: 230.534p)	1,501	950	3,460
Total dividends	1,501	950	3,460
Per share	100.0p	63.3p	230.53p

## 9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER CONSTRUCTION

On 31 December 2012, 31 December 2011 and 31 December 2010, completed all properties have been independently valued at fair value by GVA Property Consultants ("GVA"), Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40: Investment Property. GVA confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards, Global and UK seventh edition. 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.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by GVA. In determining the fair value, the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of PPP's portfolio under construction for the years ended 31 December 2012, 2011 and 2010, it has not been possible to reliably measure the fair value retrospectively. As a result, these properties are held at cost for the purposes of this financial information.

On 31 December 2009, nineteen of PPP's freehold and leasehold properties were valued by an External Valuer, Philip Waite BSc (Hons) MRICS IRRV of Aitchison Raffety. The valuations were in accordance with the requirements of the RICS Valuation Standards, the valuation of each property was on the basis of Market Value.

The remaining properties were valued on a similar basis by Julian Keyte BSc MRICS, a director of PPP, on 31 December 2009. Subsequent to 1 January 2010, all properties have been externally valued on an annual basis.

	Investment Properties £'000	Investment Properties under construction £'000	Total £'000
As at 1 January 2010	173,508	11,558	185,066
Property additions	–	5,549	5,549
Transfer from investment properties under construction	13,250	(13,250)	–
Revaluations for the year	7,555	–	7,555
As at 31 December 2010	194,313	3,857	198,170
As at 1 January 2011	194,313	3,857	198,170
Additions	–	6,718	6,718
Transfer from investment properties under construction	207	(207)	–
Revaluation for the year	5,568	–	5,568
As at 31 December 2011	200,088	10,368	210,456
As at 1 January 2012	200,088	10,368	210,456
Additions	–	5,019	5,019
Transfer from investment properties under construction	14,993	(14,993)	–
Revaluation for the year	5,180	–	5,180
As at 31 December 2012	220,261	394	220,655

The amount of finance costs capitalised within the cost of investment properties under construction during the year was £453,611 (2011: £759,832 and 2010: £1,001,010).

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Long Leasehold £'000	Total £'000
<b>Cost</b>		
As at 1 January 2010, 1 January 2011 and 1 January 2012	4,588	4,588
<b>Accumulated depreciation</b>		
As at 1 January 2010	184	184
Charge for the year	92	92
As at 31 December 2010	276	276
Charge for the year	93	93
As at 31 December 2011	369	369
Charge for the year	92	92
As at 31 December 2012	461	461
<b>Carrying amount</b>		
As at 1 January 2010	4,404	4,404
As at 31 December 2010	4,312	4,312
As at 31 December 2011	4,219	4,219
As at 31 December 2012	4,127	4,127

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## 11. TRADE AND OTHER RECEIVABLES

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Trade receivables	2,592	2,457	1,170	1,396
Other debtors	2	97	15	19
Amounts owed by group undertakings	—	—	—	2,006
Prepayments and accrued income	272	287	302	317
	<u>2,866</u>	<u>2,841</u>	<u>1,487</u>	<u>3,738</u>

As at 31 December 2010, 2011 and 2012, and as at 1 January 2010, the analysis of trade receivables that were past due but not impaired is set out below:

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Past due but not impaired:				
<30 days	2,152	2,148	855	213
30-60 days	(4)	2	(1)	803
60-90 days	50	48	3	—
90-120 days	141	52	34	89
>120 days	253	207	279	291
Total	<u>2,592</u>	<u>2,457</u>	<u>1,170</u>	<u>1,396</u>

## 12. CASH AND CASH EQUIVALENTS

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Cash held at bank	<u>2,966</u>	<u>8,094</u>	<u>16,154</u>	<u>21,301</u>

At 31 December 2012 there was restricted cash of £1,512,668 (31 December 2011: £5,314,034; 31 December 2010: £12,921,053; 1 January 2010: £19,591,110) held on deposit representing borrowings already drawn to be used on the future construction of property.

## 13. DEFERRED INCOME TAX

The analysis of the deferred tax liabilities is as follows:

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Deferred tax liabilities to be recovered after more than 12 months	<u>(8,445)</u>	<u>(7,607)</u>	<u>(7,674)</u>	<u>(6,077)</u>
Deferred tax liabilities	<u>(8,445)</u>	<u>(7,607)</u>	<u>(7,674)</u>	<u>(6,077)</u>

The gross movement on the deferred tax liabilities is as follows:

	Revaluation of investment properties £'000	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2009	1,139	—	—	1,139
(Credited)/charged to the income statement	(63)	3,879	1,122	4,938
At 31 December 2009	1,076	3,879	1,122	6,077
Charged to the income statement	236	980	381	1,597
At 31 December 2010	1,312	4,859	1,503	7,674
(Credited)/charged to the income statement	(78)	(66)	78	(66)
At 31 December 2011	1,234	4,793	1,580	7,607
Charged to the income statement	361	454	23	838
At 31 December 2012	1,595	5,247	1,603	8,445

The entity has not recognised any deferred tax assets. Trading losses and capital losses have not been recognised as the future recovery is uncertain.

#### 14. TRADE AND OTHER PAYABLES

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Trade payables	592	384	646	170
Amounts owed to group undertakings	844	897	75	550
Other payables	20	106	227	93
VAT	662	—	285	102
Accruals	269	965	1,615	1,399
	2,387	2,352	2,848	2,314

#### 15. TERM LOANS

The table indicates total facilities and amounts drawn from each individual facility:

	Facility			Amounts Drawn		
	2012 £'000	2011 £'000	2010 £'000	2012 £'000	2011 £'000	2010 £'000
<b>Current</b>						
Aviva Facility	1,599	1,359	1,149	1,599	1,359	1,149
<b>Non-current</b>						
Aviva Facility	181,692	183,291	184,651	181,692	183,291	184,651
Total	183,291	184,650	185,800	183,291	184,650	185,800

Providers:

Aviva Facility: Mortgages payable after more than five years are repayable in instalments on a quarterly basis throughout the year. Interest is payable at fixed rates, varying from 5.33 per cent. to 6.09 per cent. per annum.

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

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Term loans drawn: due within one year	1,599	1,359	1,149	946
Less: Unamortised borrowing costs due within one year	(61)	(64)	(67)	(72)
Total terms loan: due in less than one year	1,538	1,295	1,082	874
Term loans drawn: due in greater than one year	181,692	183,291	184,651	185,799
Less: Unamortised borrowing costs due in greater than one year	(481)	(542)	(606)	(673)
Total terms loan: due in greater than one year	181,211	182,749	184,045	185,126
Term loans in total per balance sheet	182,749	184,044	185,127	186,000

## 16. FINANCIAL RISK MANAGEMENT

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

PPP's principal financial liabilities are loans and borrowings. The main purpose of PPP's loans and borrowings is to finance the acquisition and development of PPP's property portfolio. PPP has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

### Financial risk factors

#### (a) *Interest risk*

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. PPP is exposed to minimal interest rate risk as all loans and borrowings are fixed.

#### (b) *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments or customer contract, leading to a financial loss. PPP is exposed to credit risk from its principal financial assets being cash and cash equivalents, trade and other receivables, and finance lease receivables.

##### *Trade receivables*

Trade receivables, primarily tenant rentals, are presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment is made where there is objective evidence that PPP will not be able to collect all amounts due according to the original terms of the receivable concerned. Credit risk is primarily managed by requiring tenants to pay rentals in advance. An analysis of trade receivables past due is shown in note 11. No trade receivables were impaired at the 2012, 2011 and 2010 year end.

##### *Bank and financial institutions*

One of the principal credit risks of PPP arises from deposits held with financial institutions. The credit risk on short-term deposits is limited because the counterparty is the financial institution which provides the term loans to PPP as detailed in note 15.

#### (c) *Liquidity risk*

The liquidity risk is that PPP will encounter difficulty in meeting obligations associated with its financial liabilities as the majority of PPP's assets are property investments and are therefore not

readily realisable. PPP's objective is to maintain a mixture of available cash and committed bank facilities that are designed to ensure that PPP has sufficient available funds for its operations and to fund its committed capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows.

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

	On demand £'000	Less than 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
<b>1 January 2010</b>						
Interest-bearing loans and borrowings	–	204	704	8,304	176,789	186,001
Trade and other payables	550	1,707	57	–	–	2,314
	<u>550</u>	<u>1,911</u>	<u>761</u>	<u>8,304</u>	<u>176,789</u>	<u>188,315</u>
<b>31 December 2010</b>						
Interest-bearing loans and borrowings	–	242	863	9,888	174,807	185,800
Trade and other payables	75	2,647	126	–	–	2,848
	<u>75</u>	<u>2,889</u>	<u>989</u>	<u>9,888</u>	<u>174,807</u>	<u>188,648</u>
<b>31 December 2011</b>						
Interest-bearing loans and borrowings	–	309	1,000	11,764	171,577	184,650
Trade and other payables	897	1,375	80	–	–	2,352
	<u>897</u>	<u>1,684</u>	<u>1,080</u>	<u>11,764</u>	<u>171,577</u>	<u>187,002</u>
<b>31 December 2012</b>						
Interest-bearing loans and borrowings	–	354	1,183	13,882	167,872	183,291
Trade and other payables	844	1,460	83	–	–	2,387
	<u>844</u>	<u>1,814</u>	<u>1,266</u>	<u>13,882</u>	<u>167,872</u>	<u>185,678</u>

PPP's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. There have been no breaches during the year (2011 and 2010: nil).

(d) **Market risk**

Market risk is the risk that fair values of financial instruments will fluctuate because of changes in market prices. The two elements of market risk that principally affect PPP are interest rate risk and other price risk.

*Fair values*

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



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	Book value 2012 £'000	Fair value 2012 £'000	Book value 2011 £'000	Fair value 2011 £'000	Book value 2010 £'000	Fair value 2010 £'000
<b>Financial assets</b>						
Trade and other receivables	2,594	2,594	2,554	2,554	1,184	1,184
Cash and short-term deposits	2,966	2,966	8,094	8,094	16,154	16,154
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings	183,291	183,291	184,650	184,650	185,800	185,800
Trade and other payables	2,387	2,387	2,352	2,352	2,848	2,848

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

- The fair values of PPP's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial information due to the short-term nature of these instruments.
- The fair value of interest-bearing loans approximates their carrying values gross of unamortised transaction costs.

(e) **Capital risk management**

The primary objectives of PPP's capital management is to ensure that it remains a going concern and operates within its quantitative banking covenants.

The capital structure of PPP consists of shareholder's equity and net borrowings. The type and maturity of PPP's borrowings are analysed further in note 15 and PPP's equity is analysed into its various components in the Statement of Changes in Equity.

During the period covered by the historical financial information PPP has complied with all of the requirements as follows.

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Fair value of completed investment properties	220,261	200,088	194,313	173,508
Fair value of investment properties under construction	394	10,368	3,857	11,558
	<u>220,655</u>	<u>210,456</u>	<u>198,170</u>	<u>185,066</u>
Carrying value of interest-bearing loans and borrowings	182,749	184,044	185,127	186,000
Unamortised borrowing costs	542	606	673	745
Less cash held	<u>(2,966)</u>	<u>(8,094)</u>	<u>(16,154)</u>	<u>(21,301)</u>
Principal amount of interest-bearing loans and borrowings	<u>180,325</u>	<u>176,556</u>	<u>169,646</u>	<u>165,444</u>
Loan to value ratio	<u>81.7%</u>	<u>83.9%</u>	<u>85.6%</u>	<u>89.4%</u>

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**17. CALLED UP SHARE CAPITAL**

	Number £'000	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	1 January 2010 £'000
Authorised:					
Ordinary Shares of £1 each	2,000	2,000	2,000	2,000	2,000
Issued and fully paid at £1 each	1,501	1,501	1,501	1,501	1,501

There has been no capital raising during the year (2011 and 2010: Nil).

**18. RETAINED EARNINGS**

	2012 £'000	2011 £'000	2010 £'000
Balance at beginning of year	26,916	19,987	15,879
Profit for the year	6,839	7,879	7,568
Final dividend paid for the year	(1,501)	(950)	(3,160)
Interim dividend for the year	–	–	(300)
Balance at end of year	32,254	26,916	19,987

**19. TRANSITION TO IFRS – RECONCILIATIONS UNDER IFRS 1**

This financial information represents the first presentation of the financial results and position of PPP prepared in accordance with IFRS. PPP has previously issued financial statements to its shareholders for the years ended 31 December 2010, 2011 and 2012 prepared in accordance with UK GAAP. PPP has adopted IFRS in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards. In accordance with this standard the first date at which IFRS has been applied, is the 2010 opening balance sheet of 1 January 2010. The most recent issued annual financial statements to be converted to IFRS are for the year ended 31 December 2012.

In accordance with IFRS, PPP has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRSs as of 31 December 2012 as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

## Reconciliation of equity at 1 January 2010

	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>			
Property, plant and equipment	4,404	–	4,404
Investment properties	185,066	–	185,066
	<u>189,470</u>	<u>–</u>	<u>189,470</u>
<b>Current assets</b>			
Trade and other receivables	23,330	(19,592) <sup>(1)</sup>	3,738
Cash and cash equivalents	1,709	19,592 <sup>(1)</sup>	21,301
	<u>25,039</u>	<u>–</u>	<u>25,039</u>
<b>Total assets</b>	<u>214,509</u>	<u>–</u>	<u>214,509</u>
<b>Current liabilities</b>			
Term loans	(874)	–	(874)
Trade and other payables	(2,314)	–	(2,314)
Deferred rental income	(2,738)	–	(2,738)
	<u>(5,926)</u>	<u>–</u>	<u>(5,926)</u>
<b>Non-current liabilities</b>			
Term loans	(185,126)	–	(185,126)
Deferred income tax liabilities	(486)	(5,591) <sup>(2)</sup>	(6,077)
<b>Total liabilities</b>	<u>(191,538)</u>	<u>(5,591)</u>	<u>(197,129)</u>
<b>Net assets</b>	<u>22,971</u>	<u>(5,591)</u>	<u>17,380</u>
<b>Equity</b>			
Share capital	1,501	–	1,501
Revaluation reserve	19,268	(19,268) <sup>(3)</sup>	–
Retained earnings	2,202	13,677	15,879
<b>Total equity</b>	<u>22,971</u>	<u>(5,591)</u>	<u>17,380</u>

### Notes to the reconciliation of equity at 1 January 2010:

- (1) Adjustment being the re-allocation of mortgages held on deposit from 'debtors' under UK GAAP to 'cash as restricted' under IFRS.
- (2) To reverse the discounting of the deferred tax liability relating to accelerated capital allowances, capitalised interest and the tax implications of investment property revaluations.
- (3) To remove the cumulative revaluation surplus on investment property from the revaluation reserve and recycle into retained earnings.

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## Reconciliation of profit and loss at 31 December 2012

	UK GAAP £	Effects of transition to IFRS £	IFRS £
Rental income	13,867	—	13,867
<b>Rental and related income</b>	<b>13,867</b>	<b>—</b>	<b>13,867</b>
Direct property expenses	(14)	—	(14)
Administrative expenses	(1,132)	—	(1,132)
<b>Operating profit before revaluation result on property portfolio</b>	<b>12,721</b>	<b>—</b>	<b>12,721</b>
Net revaluation result on property portfolio	—	5,180 <sup>(1)</sup>	5,180
<b>Operating profit before financing costs</b>	<b>12,721</b>	<b>5,180</b>	<b>17,901</b>
Finance income	46	—	46
Finance costs	(10,270)	—	(10,270)
<b>Profit on ordinary activities before taxation</b>	<b>2,497</b>	<b>5,180</b>	<b>7,677</b>
Income tax credit/(expense)	70	(908) <sup>(2)</sup>	(838)
<b>Profit for the year</b>	<b>2,567</b>	<b>4,272</b>	<b>6,839</b>
<b>Total comprehensive income for the year net of tax</b>	<b>2,567</b>	<b>4,272</b>	<b>6,839</b>

### Notes to the reconciliation of profit and comprehensive income for the year ended 31 December 2012

- (1) To recycle the revaluation surplus in the year from equity through the Income Statement in line with IAS 40.
- (2) To reverse the discounting of the deferred tax liability relating to accelerated capital allowances and capitalised interest and the tax implications of investment property revaluations.

## Reconciliation of equity at 31 December 2012

	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>			
Property, plant and equipment	4,127	–	4,127
Investment properties	220,655	–	220,655
	<u>224,782</u>	<u>–</u>	<u>224,782</u>
<b>Current assets</b>			
Trade and other receivables	4,379	(1,513) <sup>(1)</sup>	2,866
Cash and cash equivalents	1,453	1,513 <sup>(1)</sup>	2,966
	<u>5,832</u>	<u>–</u>	<u>5,832</u>
<b>Total assets</b>	<u>230,614</u>	<u>–</u>	<u>230,614</u>
<b>Current liabilities</b>			
Term loans	(1,538)	–	(1,538)
Trade and other payables	(2,387)	–	(2,387)
Deferred rental income	(3,278)	–	(3,278)
	<u>(7,203)</u>	<u>–</u>	<u>(7,203)</u>
<b>Non-current liabilities</b>			
Term loans	(181,211)	–	(181,211)
Deferred income tax liabilities	(980)	(7,465) <sup>(2)</sup>	(8,445)
<b>Total liabilities</b>	<u>(189,394)</u>	<u>(7,465)</u>	<u>(196,859)</u>
<b>Net assets</b>	<u>41,220</u>	<u>(7,465)</u>	<u>33,755</u>
<b>Equity</b>			
Share capital	1,501	–	1,501
Revaluation reserve	37,571	(37,571) <sup>(3)</sup>	–
Retained earnings	2,148	30,106	32,254
<b>Total equity</b>	<u>41,220</u>	<u>(7,465)</u>	<u>33,755</u>

### Notes to the reconciliation of equity at 31 December 2012:

- (1) Adjustment being the re-allocation of mortgages held on deposit from 'debtors' under UK GAAP to 'cash as restricted' under IFRS.
- (2) To reverse the discounting of the deferred tax liability relating to accelerated capital allowances and capitalised interest and the tax implications of investment property revaluations.
- (3) To remove the cumulative revaluation surplus on investment property from the revaluation reserve and recycle into retained earnings.

## 20. RELATED PARTY TRANSACTIONS

During the period covered by the financial information, PPP has entered into the following transactions with related parties who are members of the Prime Group:

	Income				Expense			
	2012	2011	2010	2009	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Management services</b>								
Prime PLC	–	–	–	–	(910)	–	–	–
Prime (UK) Investments Ltd	–	–	–	–	–	(874)	–	–
Prime (UK) Developments Limited	–	–	–	–	–	–	(926)	–
<b>Gross rental income</b>								
Prime PLC	275	–	–	–	–	–	–	–
Prime (UK) Developments Ltd	91	366	286	340	–	–	–	–
PPP Leasing Ltd	96	31	45	77	–	–	–	–
<b>Service charge income</b>								
Prime PLC	98	–	–	–	–	–	–	–
Prime (UK) Developments Ltd	20	105	143	75	–	–	–	–
PPP Leasing Ltd	1	–	–	1	–	(1)	–	–
<b>Other income</b>								
Prime PLC	6	–	–	–	–	–	–	–
PPP Leasing Ltd	1	–	3	1	–	–	–	–
Prime (UK) Developments Ltd	–	5	4	61	–	–	–	–
BaS (Fundco 1) Ltd	5	–	–	–	–	–	–	–
One Creative Environments Ltd	–	–	–	–	–	(3)	–	–
BaS (Fundco 2) Ltd	1	–	–	–	–	–	–	–
BaS (Fundco 3) Ltd	1	–	–	–	–	–	–	–
Prima 200 (Fundco 1) Ltd	2	–	–	–	–	–	–	–
Prima 200 (Fundco 2) Ltd	1	–	–	–	–	–	–	–
Prima 200 (Fundco 3) Ltd	2	–	–	–	–	–	–	–
<b>Legal expense</b>								
Prime PLC	–	–	–	–	(186)	(67)	(67)	–
Prime (UK) Investments Ltd	–	–	–	–	–	(273)	–	–
<b>Other expense</b>								
Prime PLC	–	–	–	–	(91)	–	–	–
Prime (UK) Developments Ltd	–	–	–	–	(37)	(205)	(8)	(1)
One Creative Environments Ltd	–	–	–	–	(3)	(69)	(3)	–
Prime (UK) Investments Ltd	–	–	–	–	–	(9)	–	–
PPP Leasing Ltd	–	–	–	–	(1)	–	–	–
<b>Capital costs</b>								
Prime PLC	–	–	–	–	(38)	–	–	(2,902)
Prime (UK) Developments Ltd	–	–	–	–	(1,345)	(1,310)	(71)	–
One Creative Environments Ltd	–	–	–	–	–	(6)	–	(20)
<b>Total</b>	<b>600</b>	<b>507</b>	<b>481</b>	<b>(2,535)</b>	<b>(2,611)</b>	<b>(2,817)</b>	<b>(1,075)</b>	<b>(2,923)</b>
	Amounts owed by related parties				Amounts owed to related parties			
	2012	2011	2010	2009	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Prime PLC	–	–	–	–	(95)	(60)	(67)	–
Prime (UK) Developments Limited	–	–	–	–	(749)	(837)	(7)	–
PPP Leasing Limited	–	–	–	–	–	–	–	(1)
One Creative Environments Ltd	–	–	–	–	–	–	–	(12)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(844)</b>	<b>(897)</b>	<b>(74)</b>	<b>(13)</b>

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## **21. CAPITAL COMMITMENTS**

At 31 December 2012 PPP had entered into contractual commitments of £280,001 (31 December 2011: £3,609,700, 31 December 2010: £9,240,961, 1 January 2010: £13,261,289) representing the building contract sum remaining on one (31 December 2011: one, 31 December 2010: two, 1 January 2010: two) properties under construction.

## **22. CONTINGENT LIABILITIES**

There were no contingencies in place as at 31 December 2012, 31 December 2011, 31 December 2010, or 1 January 2010.

## **23. SUBSEQUENT EVENTS**

On 31 January 2013, a reorganisation was undertaken whereby the entire issued share capital of PPP was transferred from PPP's immediate parent company, Prime (UK) Investments Limited, to a new holding company, Prime Public Partnerships (Holdings) Limited.

On 9 August 2013 a dividend of £450,300 was declared and paid to Prime Public Partnerships (Holdings) Limited.

On 12 November 2013 the long leasehold premises in Worcester, included in property, plant and equipment, were transferred to another entity within the ongoing Prime Group. The related mortgage on the premises included within term loans has also been repaid.





## Section B: Accountant's report on the historical financial information of PPP

The Directors  
Primary Health Properties PLC  
Ryder Court  
14 Ryder Street  
London  
SW1Y 6QB

Numis Securities Limited  
10 Paternoster Square  
London  
EC4M 7LT

15 November 2013

Dear Sirs

### Historical Financial Information of PPP Limited

We report on the financial information set out in Section A of Part 8 (the “**PPP Historical Financial Information**”). The PPP Historical Financial Information has been prepared for inclusion in the combined Class 1 circular and prospectus dated 15 November 2013 (the “**Prospectus**”) of Primary Health Properties PLC (the “**Company**”) on the basis of the accounting policies set out in note 2 to the PPP Historical Financial Information. This report is required by item 13.5.21R of the Listing Rules of the United Kingdom Listing Authority (the “**Listing Rules**”) and is given for the purpose of complying with that item and for no other purpose.

### Responsibilities

The Directors of the Company are responsible for preparing the PPP Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the PPP Historical Financial Information gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Prospectus, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Prospectus.

### Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the PPP Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the PPP Historical

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Financial Information and whether the accounting policies are appropriate to PPP's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 PPP Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the PPP Historical Financial Information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of PPP as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I to the PD Regulation.

Yours faithfully

**PricewaterhouseCoopers LLP**  
*Chartered Accountants*

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## **PART 9**

### **UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The unaudited pro forma financial information in this Part 9 is based on the consolidated net assets of the Group set out in the interim results and unaudited financial statements of the Group for the six month period to 30 June 2013. The pro forma financial information has been prepared to illustrate the effect on the consolidated net assets of the Group as if the Acquisition had taken place on 30 June 2013.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position.

The unaudited pro forma financial information has been prepared on the basis set out in the notes below and in accordance with the requirements of Listing Rule 13.3.3R. The unaudited pro forma financial information has been prepared on the basis of the accounting policies adopted by the Company in preparing the unaudited interim consolidated financial statements of the Group for the six month period to 30 June 2013.

## Section A: Unaudited pro forma statement of net assets

### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

	Adjustments			Pro forma consolidated net assets of the Enlarged Group at 30 June 2013
	Consolidated net assets of the Group at 30 June 2013 Note 1 £'m	Net assets of PPP at 31 December 2012 Note 2 £'m	Acquisition of PPP Notes 3 and 4 £'m	Total £'m
<b>Non-current assets</b>				
Investment properties	646.7	220.7	–	867.4
Derivative interest rate swaps	0.2	–	–	0.2
Property, plant and equipment	–	4.1	–	4.1
<b>Non-current assets</b>	<b>646.9</b>	<b>224.8</b>	<b>–</b>	<b>871.7</b>
<b>Current assets</b>				
Trade and other receivables	3.0	2.8	–	5.8
Cash and cash equivalents	14.6	3.0	(1.4)	16.2
<b>Current assets</b>	<b>17.6</b>	<b>5.8</b>	<b>(1.4)</b>	<b>22.0</b>
<b>Total assets</b>	<b>664.5</b>	<b>230.6</b>	<b>(1.4)</b>	<b>893.7</b>
<b>Current liabilities</b>				
Term loans	(0.6)	(1.5)	–	(2.1)
Derivative interest rate swaps	(7.5)	–	–	(7.5)
Trade and other payables	(10.3)	(2.4)	–	(12.7)
Deferred rental income	(8.2)	(3.3)	–	(11.5)
<b>Current liabilities</b>	<b>(26.6)</b>	<b>(7.2)</b>	<b>–</b>	<b>(33.8)</b>
<b>Non-current liabilities</b>				
Term loans	(276.7)	(181.2)	–	(457.9)
Retail Bond	(73.8)	–	–	(73.8)
Deferred income tax liabilities	–	(8.4)	8.4	–
Derivative interest rate swaps	(27.3)	–	–	(27.3)
<b>Non-current liabilities</b>	<b>(377.8)</b>	<b>(189.6)</b>	<b>8.4</b>	<b>(559.0)</b>
<b>Total liabilities</b>	<b>(404.4)</b>	<b>(196.8)</b>	<b>8.4</b>	<b>(592.8)</b>
<b>Net assets</b>	<b>260.1</b>	<b>33.8</b>	<b>7.0</b>	<b>300.9</b>

#### Notes:

- (1) The net assets of the Group as at 30 June 2013 have been extracted without material adjustment from the interim results and unaudited financial statements of the Group for the six months ended 30 June 2013, as incorporated by reference in Part 12 of this document.
- (2) The net assets of PPP have been extracted, without material adjustment, from the historical financial information in Part 8 (“Historical Financial Information of the PPP Group”) of this document.
- (3) The unaudited pro forma statement of net assets has been prepared on the basis that the Acquisition will be accounted for as a property acquisition and not as a business combination on the basis that the PPP Group is essentially a portfolio of assets and has no personnel and business processes. On this basis the cost to acquire the corporate entity will be allocated between the identifiable assets and liabilities of the entity based on their relative fair values on the date of completion of the Acquisition. Accordingly, no goodwill is expected to arise. No estimation has been made of the fair value adjustments that would arise at the date of acquisition as these are dependent upon values at that date. The initial consideration of £40.3 million is to be satisfied by the issue to the Sellers of 12,577,771 new Ordinary Shares at a price of 320 pence per share. The total consideration of

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approximately £41.1 million will be adjusted up to a maximum consideration of approximately £42.6 million following Completion, as described in Part 2 (“Principal Terms and Conditions of the Acquisition”) of this document.

- (4) Pro forma adjustments are as follows:
- (a) Total acquisition costs and expenses of £1.4 million are reflected as a movement in cash.
  - (b) On completion of the acquisition, as part of the Enlarged Group, the PPP Group automatically enters the UK-REIT regime. As such, the deferred tax liabilities of PPP (£8.4 million as at 31 December 2012) will be reversed on consolidation post acquisition.
- (5) A valuation of the PPP Portfolio at 31 October 2013 is set out at Section B of Part 10 (“Property Valuation Reports”). The table below reconciles the investment properties of the Enlarged Group on the basis of this valuation:

	<b>£m</b>
Investment properties of the Group as at 30 June 2013	646.7
Investment properties of PPP as at 31 December 2012	220.7
Increase in valuation of investment properties of PPP as at 31 October 2013	12.3
	<u>879.7</u>

- (6) The unaudited pro forma financial information does not take into account trading of the Group subsequent to the interim balance sheet date of 30 June 2013 or the PPP Group subsequent to the year end balance sheet date of 31 December 2012, including the PPP Group reorganisation as described in Part 8 (“Historical Financial Information on the PPP Group”).



## Section B: Accountant's report on the unaudited pro forma net assets statement

The Directors  
Primary Health Properties PLC  
Ryder Court  
14 Ryder Street  
London  
SW1Y 6QB

Numis Securities Limited  
10 Paternoster Square  
London  
EC4M 7LT

15 November 2013

Dear Sirs

### Primary Health Properties PLC (the "Company")

We report on the unaudited pro forma net assets statement (the "**Pro forma financial information**") set out in section A of Part 9 of the Company's combined Class 1 circular and prospectus dated 15 November 2013 (the "**Prospectus**") which has been prepared on the basis described in the notes to the Pro forma financial information, for illustrative purposes only, to provide information about how the proposed acquisition by the Company of the PPP Group might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the unaudited interim financial statements for the six months ended 30 June 2013. This report is required by item 20.2 of Annex I to the PD Regulation and item 13.3.3R of the UK Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with those items and for no other purpose.

### Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with item 20.2 of Annex I to the PD Regulation and item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation and item 13.3.3R of the Listing Rules as to the proper compilation of the Pro forma financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation and item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Prospectus.

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**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

**Declaration**

For the purposes of Prospectus Rule 5.5.3 R(2)(f), we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Item 1.2 of Annex I to the PD Regulation.

Yours faithfully

**PricewaterhouseCoopers LLP**  
*Chartered Accountants*



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## **PART 10**

### **PROPERTY VALUATION REPORTS**

This Part 10 contains:

- in Section A, a property valuation report on PHP properties as at 30 June 2013; and
- in Section B, a property valuation report on the PPP Portfolio as at 31 October 2013.

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## Section A: Property Valuation Report on PHP properties

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Primary Health Properties PLC (“**Company**”)  
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SW1Y 6QB

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

**Lambert Smith Hampton**  
Interchange Place  
Edmund Street  
Birmingham  
B3 2TA

15 November 2013

Dear Sirs,

### PROPERTY PORTFOLIO VALUATION

#### 1. INTRODUCTION

In accordance with our instructions we have considered the properties currently owned by **the Company** in order to advise you of our opinion of the Market Value of the freehold and leasehold interests of the properties held as investments as at 30 June 2013. We have not found it necessary to qualify the definition of Market Value, as stated below, within this report. We have also provided an estimate of net annual rents receivable as at 30 June 2013.

The valuation has been prepared in accordance with paragraph 130 of ESMA’s update of the CESR recommendations for the consistent implementation of the Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive (the “ESMA Recommendations”), to which we refer below. Each property has been valued individually and not as part of a portfolio.

Our valuation has been carried out in accordance with The Royal Institution of Chartered Surveyors Valuation – Professional Standards Incorporating the International Valuation Standards, Global and UK edition March 2012 (the ‘Red Book’) and in accordance with the Prospectus Rule 5.6.5 and paragraph 128-130 of the ESMA Recommendations. It has been undertaken by External Valuers, as defined in the Red Book (independent experts for the purposes of paragraph 130 of the ESMA Recommendations).

We understand that our valuation is required in connection with the combined class 1 circular and prospectus to be published in connection with the proposed acquisition of **Prime Public Partnerships (Holdings) Limited** by **the Company** and the issue of up to 13,326,624 new Ordinary Shares of 50 pence each in the capital of the Company (“**Consideration Shares**”) as consideration for the acquisition (the “**Prospectus**”) and the admission of the Consideration Shares to the Official List of the Financial Conduct Authority and to trading on London Stock Exchange plc’s main market for listed securities.

In accordance with Practice Statement 5 we confirm that Lambert Smith Hampton (LSH) has held a fee earning relationship with **the Company** for approximately 15 years with the signatory to this report having signed annual and interim valuation reports for the client for 9 years. We confirm that in the preceding year the proportion of the total fees payable by **the Company** to the total fee income of LSH is less than 5 per cent.

The RICS consider it good practice to rotate the valuer responsible when a series of valuations is provided over a period of time and we confirm that LSH follow this practice.

We do not consider that any conflict of interest arises for us in preparing our valuation, and **the Company** has confirmed to us that it also considers this to be the case.

We confirm that we do not have any material interest in **the Company** or any of the properties.

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The properties were inspected on various dates in 2012 and 2013 by Mark Weller MRICS, Roger Buncombe MRICS, Sarah Overall MRICS, Sarah Williams MRICS, Joanna Beaumont MRICS and Timothy Sandford MRICS. Timothy Sandford MRICS has undertaken this Valuation Report and is qualified for the purposes of this instruction.

## **2. BASIS OF VALUATION**

### **General**

In accordance with the Red Book and the Listing Rules (LR), our valuation has been prepared on the basis of Market Value, which under Practice Statement PS 3.2, the Red Book Defines as:

“The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

We have had no reason to qualify this definition.

### **Properties in the course of development**

PHP PLC is currently committed to acquiring various properties which are in the course of development and in various stages of construction. We understand that investment property under construction is now to be brought into the scope of IAS 40 Investment Property. Therefore we have provided Market Values of these properties on the following basis:

- *That all works to construct the proposed developments have been completed fully and to an acceptable standard in accordance with plans and specifications provided to us.*
- *The leases to the various occupiers have been completed in accordance with the agreed lease terms you have provided to us*
- *The rent and other tenant obligations under the leases commence on the Valuation Date.*

Our valuations are also carried out in accordance with the definitions, assumptions and comments as detailed within our “Terms of Engagement”.

## **3. SCOPE OF REPORT**

The scope of this report extends to the properties owned as at 30 June 2013 and those within the course of construction with a legal commitment to purchase.

## **4. TENURE AND TENANCIES**

Our valuations have been based upon the details of tenure and tenancies and other information provided by **the Company**. In addition, we have previously been provided with Certificates of Title supplied to us by **the Company** solicitors. Where possible this information has been confirmed during our inspections of the properties and individual leases.

In considering the covenant strength of individual tenants we have not carried out any recent credit enquiries on their financial status. We have, however, reflected in our valuations our general understanding of purchasers’ likely perceptions of the tenants’ financial status. We have also assumed that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant.

## **5. NET ANNUAL RENTS**

When assessing values of the properties we have had regard to the annual rents receivable for each property. We have had regard to the definition of “net annual rent” given in LR Appendix 1. This defines “net annual rent” as the current income or income estimated by the valuer:

- (1) ignoring any special receipts or deductions arising from the properties;
- (2) excluding Value Added Tax and before Taxation (including tax on profits and allowances for interest on capital and loans);

- 
- (3) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

## **6. FLOOR AREAS**

We have clarified the floor areas of the properties in the preparation of our valuations which have been prepared strictly in accordance with the RICS Code of Measuring Practice (6<sup>th</sup> Edition) and its predecessor issued by the Royal Institution of Chartered Surveyors 2001.

We have not carried out measured site surveys but site areas have been calculated from observed site boundaries and with reference to the appropriate Ordnance Survey extracts.

We confirm that all of the properties have been measured by Lambert Smith Hampton other than those under construction. All of the properties have been inspected (other than the residential elements) within the last 12 months.

## **7. CONDITION AND REPAIR**

We have not undertaken a structural survey of any of the properties, or arranged for any tests or inspections to be carried out on any of the service installations. Furthermore, no detailed examinations have been carried out to determine whether any deleterious materials such as high alumina cement, woodwool slab or blue asbestos have been used in the construction of any of the buildings and the valuations are therefore made on the assumption that no such materials exist.

We have not made exhaustive enquiries of the statutory authorities and would point out that the complexity of building regulations and other statutory enactments often have a material effect on the way in which a building is planned and used upon the cost of consequential works.

Unless otherwise stated in the Certificate of Title we have assumed that each property has a valid and up to date Fire Certificate and that it complies with the Health & Safety Act 1974, Building Regulations and all other statutory enactments. We have further assumed that there are no outstanding liabilities arising out of the provisions of the Defective Premises Act 1972.

## **8. ENVIRONMENTAL PROTECTION ACT**

Our valuations have been prepared on the basis that the properties have not been used for any purpose which may at a later stage be regarded as contaminative and that no contamination exists. Should it, however, be subsequently established that such contamination exists at any of the properties or any adjoining land or that any premises have been or are being put to contaminative use, this may be found to have a detrimental effect on the value reported.

## **9. PLANT AND MACHINERY**

We have included in our valuation plant and machinery items normally regarded as forming part of the “building” service installation.

## **10. TOWN PLANNING**

Oral enquiries of the planning and other relevant local authorities have been made in respect of each property and we have made all such enquiries as are appropriate to particular local conditions. We have assumed, except where stated to the contrary that all buildings are currently used in accordance with the relevant local authority approval and all conditions imposed on such consents have been adhered to.

**The Company** have confirmed to us in writing that all properties referred to in this Report have all the relevant planning permissions in accordance with the relevant local authority approval and all conditions imposed on such consents have been adhered to.

## **11. GENERAL COMMENTS**

We have assumed that all the properties are capable of unrestricted transfer to third party purchasers (in the case of leasehold property, subject to the lessor’s consent, not to be unreasonably withheld) and have

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made no allowance to reflect the balance of outstanding mortgages which may exist, either in respect of the capital or interest rolled up thereon.

No allowances have been made in our valuations for any expenses of realisation, neither have we reflected any element of “marriage value” or “special purchaser value” which could possibly be realised by a merger of interests or by a sale to an owner or occupier of an adjoining property.

No allowance has been made for any liability which may arise for payment of corporation tax or capital gains tax or any other property related tax, whether existing or which may arise on development or disposal, deemed or otherwise. We would also specifically draw your attention to the fact that the valuations stated within this report are exclusive of any value added tax liability, which may be incurred.

To the extent that we have been supplied with information by **the Company** and/or its solicitors or by other professional advisers, we have assumed in preparing the valuations that such information is accurate in all respects.

In the valuation of the portfolio, we have valued each property separately and not as part of the portfolio. Accordingly, we have made no allowance, either positive or negative, in the aggregate value reported to reflect the possibility of the whole or part of the portfolio being placed on the market at any one time.

For each individual valuation we have made an allowance for hypothetical purchasers’ costs of acquisition.

## 12. VALUATION

Subject to the comments and assumptions set out in this report and subject to the comments in the LSH “Terms of Engagement for Valuation Services”, we are of the opinion that the aggregate Market Value of the freehold and long leasehold interests in the investment properties as at 30 June 2013 is:

**£660,405,000**

**(Six Hundred and Sixty Million Four Hundred and Five Thousand Pounds)**

made up as follows:

### *Category of Property*

#### **FREEHOLD/HERITABLE**

Properties held as investments	£538,485,000
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#### **LEASEHOLD**

Properties held as investments	£94,360,000
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#### **PROPERTIES WHICH ARE IN THE COURSE OF CONSTRUCTION**

Properties to be held as investments	£27,440,000
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#### **PROPERTIES HELD FOR NON SPECIALISED DEVELOPMENT**

Properties held for development	£120,000
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<b>Total</b>	<b>£660,405,000</b>
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We are not aware of any material change in circumstances between the date of the valuation and the date of this valuation report that would affect the valuation.

## 13. GEOGRAPHICAL SPLIT OF PROPERTIES

A typical property will comprise a purpose built two storey medical centre with on site parking for both staff and patients. Internally the building will be arranged to provide reception area, consulting rooms, offices and normal facilities associated with a surgery. Some sites also have a pharmacy and possibly a convenience store in separate buildings.

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Total in number	Geographical region	Combined Net Annual Rent £pa	Combined Market Value £
41	North	9,647,113	159,070,000
61	South East	11,428,041	189,020,000
8	South West	1,394,086	23,420,000
43	Midlands	8,671,372	144,715,000
14	Scotland	3,361,487	57,710,000
19	Wales	5,231,290	86,470,000
<hr/> 186		<hr/> 39,733,389	<hr/> 660,405,000

This valuation has been prepared for inclusion in the Prospectus.

For the purpose of Prospectus Rule 5.5.3R(2)(f), we accept responsibility for the information within this report and valuation and declare that we have taken all reasonable care to ensure that the information contained in this report and valuation is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully



**T D Sanford MRICS**  
*Director*

For and on behalf of Lambert Smith Hampton



**Mark D Weller BSc (Hons) MRICS**  
*Director*

For and on behalf of Lambert Smith Hampton

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## Section B: Property valuation report on PPP Portfolio

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[www.lsh.co.uk](http://www.lsh.co.uk)

The Directors  
Primary Health Properties PLC (“**Company**”)  
Ground Floor  
Ryder Court  
14 Ryder Street  
London  
SW1Y 6QB

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

**Lambert Smith Hampton**  
Interchange Place  
Edmund Street  
Birmingham  
B3 2TA

15 November 2013

Dear Sirs,

### PROPERTY PORTFOLIO VALUATION

#### 1. INTRODUCTION

In accordance with our instructions we have considered the properties to be acquired by **the Company** in order to advise you of our opinion of the Market Value of the freehold and leasehold interests of the properties held as investments as at 31 October 2013. We have not found it necessary to qualify the definition of Market Value, as stated below, within this report. We have also provided an estimate of net annual rents receivable as at 31 October 2013.

The valuation has been prepared in accordance with paragraph 130 of ESMA’s update of the CESR recommendations for the consistent implementation of the Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive (the “ESMA Recommendations”), to which we refer below. Each property has been valued individually and not as part of a portfolio.

Our valuation has been carried out in accordance with The Royal Institution of Chartered Surveyors Valuation – Professional Standards Incorporating the International Valuation Standards, Global and UK edition March 2012 (the ‘Red Book’) and in accordance with the Prospectus Rule 5.6.5, paragraph 128-130 of the ESMA Recommendations and the Listing Rules. It has been undertaken by External Valuers, as defined in the Red Book (independent experts for the purposes of paragraph 130 of the ESMA Recommendations).

We understand that our valuation is required in connection with the combined class 1 circular and prospectus to be published in connection with the proposed acquisition of **Prime Public Partnerships (Holdings) Limited** by **the Company** and the issue of up to 13,326,624 new Ordinary Shares of 50 pence each in the capital of **the Company** (“**Consideration Shares**”) as consideration for the acquisition (the “**Prospectus**”) and the admission of the Consideration Shares to the Official List of the Financial Conduct Authority and to trading on London Stock Exchange plc’s main market for listed securities.

In accordance with Practice Statement 5 we confirm that Lambert Smith Hampton (LSH) has held a fee earning relationship with **the Company** for approximately 15 years with the signatory to this report having signed annual and interim valuation reports for the client for 9 years. We confirm that in the preceding year the proportion of the total fees payable by **the Company** to the total fee income of LSH is less than 5 per cent.

The RICS consider it good practice to rotate the valuer responsible when a series of valuations is provided over a period of time and we confirm that LSH follow this practice.

We do not consider that any conflict of interest arises for us in preparing our valuation, and **the Company** has confirmed to us that it also considers this to be the case.

We confirm that we do not have any material interest in **the Company** or any of the properties.



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The properties were inspected on various dates in 2012 and 2013 by Mark Weller MRICS, Roger Buncombe MRICS, Sarah Overall MRICS, Sarah Williams MRICS, and Timothy Sandford MRICS. Timothy Sandford MRICS has undertaken this Valuation Report and is qualified for the purposes of this instruction.

## **2. BASIS OF VALUATION**

In accordance with the Red Book and the Listing Rules (LR), our valuation has been prepared on the basis of Market Value, which under Practice Statement PS 3.2, the Red Book Defines as:

“The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

We have had no reason to qualify this definition.

## **3. SCOPE OF REPORT**

The scope of this report extends to the properties owned as at 31 October 2013 and those within the course of construction with a legal commitment to purchase.

## **4. TENURE AND TENANCIES**

Our valuations have been based upon the details of tenure and tenancies and other information provided by **the Company**. In addition, we have previously been provided with Certificates of Title supplied to us by **the Company** solicitors. Where possible this information has been confirmed during our inspections of the properties and individual leases.

In considering the covenant strength of individual tenants we have not carried out any recent credit enquiries on their financial status. We have, however, reflected in our valuations our general understanding of purchasers’ likely perceptions of the tenants’ financial status. We have also assumed that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant.

## **5. NET ANNUAL RENTS**

When assessing values of the properties we have had regard to the annual rents receivable for each property. We have had regard to the definition of “net annual rent” given in LR Appendix 1. This defines “net annual rent” as the current income or income estimated by the valuer:

- (1) ignoring any special receipts or deductions arising from the properties;
- (2) excluding Value Added Tax and before Taxation (including tax on profits and allowances for interest on capital and loans);
- (3) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

## **6. FLOOR AREAS**

We have clarified the floor areas of the properties in the preparation of our valuations which have been prepared strictly in accordance with the RICS Code of Measuring Practice (6<sup>th</sup> Edition) and its predecessor issued by the Royal Institution of Chartered Surveyors 2001.

We have not carried out measured site surveys but site areas have been calculated from observed site boundaries and with reference to the appropriate Ordnance Survey extracts.

We confirm that all of the properties have been measured by Lambert Smith Hampton other than those under construction. All of the properties have been inspected (other than the residential elements) within the last 12 months.

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## 7. CONDITION AND REPAIR

We have not undertaken a structural survey of any of the properties, or arranged for any tests or inspections to be carried out on any of the service installations. Furthermore, no detailed examinations have been carried out to determine whether any deleterious materials such as high alumina cement, woodwool slab or blue asbestos have been used in the construction of any of the buildings and the valuations are therefore made on the assumption that no such materials exist.

We have not made exhaustive enquiries of the statutory authorities and would point out that the complexity of building regulations and other statutory enactments often have a material effect on the way in which a building is planned and used upon the cost of consequential works.

Unless otherwise stated in the Certificate of Title we have assumed that each property has a valid and up to date Fire Certificate and that it complies with the Health & Safety Act 1974, Building Regulations and all other statutory enactments. We have further assumed that there are no outstanding liabilities arising out of the provisions of the Defective Premises Act 1972.

## 8. ENVIRONMENTAL PROTECTION ACT

Our valuations have been prepared on the basis that the properties have not been used for any purpose which may at a later stage be regarded as contaminative and that no contamination exists. Should it, however, be subsequently established that such contamination exists at any of the properties or any adjoining land or that any premises have been or are being put to contaminative use, this may be found to have a detrimental effect on the value reported.

## 9. PLANT AND MACHINERY

We have included in our valuation plant and machinery items normally regarded as forming part of the “building” service installation.

## 10. TOWN PLANNING

Oral enquiries of the planning and other relevant local authorities have been made in respect of each property and we have made all such enquiries as are appropriate to particular local conditions. We have assumed, except where stated to the contrary that all buildings are currently used in accordance with the relevant local authority approval and all conditions imposed on such consents have been adhered to.

**The Company** have confirmed to us in writing that all properties referred to in this Report have all the relevant planning permissions in accordance with the relevant local authority approval and all conditions imposed on such consents have been adhered to.

## 11. GENERAL COMMENTS

We have assumed that all the properties are capable of unrestricted transfer to third party purchasers (in the case of leasehold property, subject to the lessor’s consent, not to be unreasonably withheld) and have made no allowance to reflect the balance of outstanding mortgages which may exist, either in respect of the capital or interest rolled up thereon.

No allowances have been made in our valuations for any expenses of realisation, neither have we reflected any element of “marriage value” or “special purchaser value” which could possibly be realised by a merger of interests or by a sale to an owner or occupier of an adjoining property.

No allowance has been made for any liability which may arise for payment of corporation tax or capital gains tax or any other property related tax, whether existing or which may arise on development or disposal, deemed or otherwise. We would also specifically draw your attention to the fact that the valuations stated within this report are exclusive of any value added tax liability, which may be incurred.

To the extent that we have been supplied with information by **the Company** and/or its solicitors or by other professional advisers, we have assumed in preparing the valuations that such information is accurate in all respects.

In the valuation of the portfolio, we have valued each property separately and not as part of the portfolio. Accordingly, we have made no allowance, either positive or negative, in the aggregate value reported to reflect the possibility of the whole or part of the portfolio being placed on the market at any one time.

For each individual valuation we have made an allowance for hypothetical purchasers' costs of acquisition.

## 12. VALUATION

Subject to the comments and assumptions set out in this report and subject to the comments in the LSH "Terms of Engagement for Valuation Services", we are of the opinion that the aggregate Market Value of the freehold and long leasehold interests in the investment properties as at 31 October 2013 is:

**£232,975,000**

**(Two Hundred and Thirty Two Million Nine Hundred and Seventy Five Thousand Pounds)**

made up as follows:

*Category of Property*

### **FREEHOLD/HERITABLE**

Properties held as investments	£194,395,000
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### **LEASEHOLD**

Properties held as investments	£38,580,000
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### **PROPERTIES WHICH ARE IN THE COURSE OF CONSTRUCTION**

Properties to be held as investments	£0
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### **PROPERTIES HELD FOR NON SPECIALISED DEVELOPMENT**

Properties held for development	£0
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<b>Total</b>	<b>£232,975,000</b>
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We are not aware of any material change in circumstances between the date of the valuation and the date of this valuation report that would affect the valuation.

## 13. GEOGRAPHICAL SPLIT OF PROPERTIES

A typical property will comprise a purpose built two storey medical centre with on site parking for both staff and patients. Internally the building will be arranged to provide reception area, consulting rooms, offices and normal facilities associated with a surgery. Some sites also have a pharmacy and possibly a convenience store in separate buildings.

Total in number	Geographical region	Combined Net Annual Rent £pa	Combined Market Value £
31	North	7,214,896	124,015,000
3	South East	838,056	12,390,000
1	South West	179,000	2,790,000
6	Midlands	2,413,826	34,640,000
11	Scotland	3,315,069	54,270,000
2	Wales	297,750	4,870,000
<b>54</b>		<b>14,258,597</b>	<b>232,975,000</b>

This valuation has been prepared for inclusion in the Prospectus.

For the purpose of Prospectus Rule 5.5.3R(2)(f), we accept responsibility for the information within this report and valuation and declare that we have taken all reasonable care to ensure that the information contained in this report and valuation is, to the best of our knowledge, in accordance with the facts and

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contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully



**T D Sanford MRICS**

*Director*

For and on behalf of Lambert Smith Hampton



**Mark D Weller BSc (Hons) MRICS**

*Director*

For and on behalf of Lambert Smith Hampton

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## PART 11

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY

- 1.1 The Company and each of the Directors, whose names are set out on page 27 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 The Property Valuer accepts responsibility for the information contained in the Property Valuation Reports set out in Part 10 of this document. To the best of the knowledge and belief of the Property Valuer, and having taken all reasonable care to ensure that such is the case, the information contained in the Property Valuation Reports are in accordance with the facts and do not omit anything likely to affect the import of such information.
- 1.3 PricewaterhouseCoopers LLP accepts responsibility for the information contained in the report on the historical financial information on PPP set out in Section B of Part 8 of this document and report on the pro forma net assets statement set out in Section B of Part 9 of this document.

#### 2. INCORPORATION AND REGISTERED OFFICE OF PHP

- 2.1 PHP was incorporated in England and Wales on 16 March 1995 under the Companies Act 1985, as a public company limited by shares with the name Richadvance PLC with registered number 03033634. On 21 July 1995 the name of the Company was changed to Primary Health Properties PLC.
- 2.2 The Company floated on AIM in 1996 and was admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 5 November 1998.
- 2.3 The Company is domiciled in the UK. Its registered office is at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB and the telephone number is +44 (0)20 7747 5678.
- 2.4 On 1 January 2007 the Company converted into a UK-REIT.
- 2.5 The principal legislation under which PHP operates, and under which the Ordinary Shares were created, is the Companies Act, the Companies Act 1985 and subordinated legislation made under them.
- 2.6 Deloitte LLP, whose address is 2 New Street Square, London EC4A 3BZ, is the auditor of PHP. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

#### 3. SHARE CAPITAL OF PHP

- 3.1 As at 14 November 2013 (being the latest practicable date prior to the issue of this document) the issued and fully paid share capital of the Company was as follows:

Class of Share	Issued and fully paid	
	Number	Amount (£)
Ordinary Shares of 50 pence each	97,896,459	48,934,729.50

- 3.2 The issued and fully paid Ordinary Share capital of the Company, following Completion is expected to be as follows:

Class of Share	Following completion <sup>(1)</sup>	
	Number	Amount (£)
Issued and fully paid Ordinary Shares of 50 pence each	111,233,083	55,611,542

(1) Assuming that all of the Consideration Shares are issued pursuant to the Acquisition Agreement.

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- 3.3 The number of Ordinary Shares outstanding at the beginning and end of the last financial year is as follows:

	Issued and fully paid
1 January 2012	68,272,229
31 December 2012	76,034,208

3.4 **History of Ordinary Share capital**

- (a) There have been the following material changes in the amount of the issued share capital of the Company during the three years preceding the date of this document:
- (i) on 12 April 2011, in connection with a placing, the Company issued 5,284,041 Ordinary Shares;
  - (ii) on 18 May 2012, in connection with a placing, the Company issued 6,229,509 Ordinary Shares; and
  - (iii) on 12 June 2013, in connection with a placing, open offer and offer for subscription, the Company issued 21,746,032 Ordinary Shares.
- (b) No Ordinary Shares are held by or on behalf of the Company (including in treasury) or by its subsidiaries.

3.5 **Existing share authorities**

- (a) By an ordinary resolution passed on 15 April 2013 the Directors have been authorised to allot equity securities (within the meaning of section 560 of the Companies Act) up to an aggregate nominal amount of £12,672,368. The power is limited to the allotment of equity securities in connection with a rights issue. Such authority expires at the conclusion of the next annual general meeting of the Company or if earlier on the date which is 15 months after resolution.
- (b) By a special resolution of the Company passed on 15 April 2013 the Directors have been empowered (in accordance with section 570 of the Companies Act) to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash or by way of sale of treasury shares as if section 561(1) of the Companies Act did not apply to such allotment, provided that this power is limited to the allotment of equity securities in connection with a rights issue or pursuant to any other *pro rata* offer to Shareholders (but in the case of authority granted in paragraph 3.5(a) above by way of a rights issue only) and otherwise to the allotment of equity securities for cash up to an aggregate nominal amount of £1,900,855. Such authority expires at the conclusion of the next annual general meeting of the Company or if earlier on the date which is 15 months after the date of the resolution.
- (c) By a special resolution of the Company passed on 15 April 2013 the Directors have been authorised in accordance with section 701 of the Companies Act, to make market purchases (within the meaning of section 693(4) of the Companies Act) of Ordinary Shares. The maximum number of Ordinary Shares which may be purchased is 7,603,421. The minimum price which may be paid for an Ordinary Share is 50 pence and the maximum price cannot be more than the higher of: (i) an amount equal to 105 per cent. of the average market value for the five Business Days immediately preceding the day on which the Ordinary Share is purchased; and (ii) the value of an Ordinary Share calculated on the basis of the higher of the last independent trade of, or the highest current independent bid for any number of Ordinary Shares on the trading venue where the market purchase by the Company will be carried out. Such authority expires at the end of the next annual general meeting of the Company.
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### 3.6 Shareholder authorities to be proposed at the General Meeting

At the General Meeting the following Resolutions will be voted on by the Shareholders for the purposes of facilitating the Acquisition:

#### ORDINARY RESOLUTIONS

1. THAT, subject to Resolutions 2 and 3 below being passed the proposed acquisition by the Company of the entire issued share capital of Prime Public Partnerships (Holdings) Limited (the “**Acquisition**”) on the terms and subject to the conditions contained in the Acquisition Agreement (as defined in the prospectus and circular to shareholders of the Company together with the notice of general meeting (the “**Prospectus**”), a copy of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) together with the associated and/or ancillary agreements contemplated by the Acquisition Agreement and/or described in the Prospectus, be and is hereby approved and the directors of the Company (the “**Directors**”) (or any duly constituted committee thereof) be and hereby are authorised to: (i) take all such steps as the Directors consider to be necessary or desirable in connection with, and to implement, the Acquisition; and (ii) agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Acquisition and/or the Acquisition Agreement together with the associated and/or ancillary agreements contemplated by the Acquisition Agreement and/or described in the Prospectus (provided such modifications, variations, revisions, waivers or amendments are not a material change to the terms of the Acquisition), and to any documents and arrangements relating thereto as they may in their absolute discretion think fit.
2. THAT, subject to the passing of Resolution 1, the Directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “**2006 Act**”) in substitution for all existing authorities:
  - 2.1 to exercise all the powers of the Company to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together “**Relevant Securities**”) up to an aggregate nominal amount of £18,537,180; and
  - 2.2 to exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the 2006 Act) up to an additional aggregate nominal amount of £18,537,180 provided that this authority may only be used in connection with a rights issue in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever,

provided that the authorities in 2.1 and 2.2 shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or if earlier on the date which is 15 months after the date on which this resolution is passed, except that the Company may before such expiry make an offer or agreement which would or might require Relevant Securities or equity securities as the case may be to be allotted after such expiry and the directors may allot Relevant Securities or equity securities in pursuance of any such offer or agreement as if the authority in question had not expired.



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### SPECIAL RESOLUTIONS

3. THAT, subject to the passing of Resolutions 1 and 2, the Directors be and are empowered, in accordance with sections 570 and 573 of the 2006 Act, to allot equity securities (as defined in section 560(1) of the 2006 Act) for cash pursuant to the authority conferred by Resolution 2 or by way of a sale of treasury shares as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to:

- 3.1 the allotment of equity securities in connection with a rights issue or other *pro rata* offer (but, in the case of the authority conferred by paragraph 2.2, by way of a rights issue only) in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and
- 3.2 the allotment (otherwise than pursuant to paragraph 3.1 above) of equity securities up to an aggregate nominal amount of £2,780,577,

and shall expire upon the expiry of the general authority conferred by Resolution 2 above, except that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted and/or shares held by the Company in treasury to be sold or transferred after such expiry and the directors may allot equity securities and/or sell or transfer shares held by the Company in treasury in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

4. THAT, subject to the passing of Resolutions 1, 2 and 3, the Company be and is hereby generally and unconditionally authorised, in accordance with section 701 of the 2006 Act, to make market purchases (within the meaning of section 693(4) of the 2006 Act) of ordinary shares of 50 pence each in the capital of the Company on such terms and in such manner as the directors may from time to time determine provided that:
- (a) the maximum number of ordinary shares authorised to be purchased is 11,122,308;
  - (b) the minimum price which may be paid for an ordinary share is 50 pence (exclusive of expenses payable by the Company);
  - (c) the maximum price which may be paid for an ordinary share (exclusive of expenses payable by the Company) cannot be more than the higher of:
    - (i) 105 per cent. of the average market value of an ordinary share for the five business days prior to the day on which the ordinary share is contracted to be purchased; and
    - (ii) the value of an ordinary share calculated on the basis of the higher of:
      - (i) the last independent trade of; or
      - (ii) the highest current independent bid for any number of ordinary shares on the trading venue where the market purchase by the Company will be carried out;

and the authority conferred by this Resolution shall expire at the conclusion of the next annual general meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

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- 3.7 Following completion of the Acquisition, the Directors of the Company will be authorised to allot up to 37,074,361 Ordinary Shares generally and 5,561,154 Ordinary Shares for cash (representing approximately 37.87 per cent. and 5.68 per cent. respectively of the issued share capital of the Company as at 14 November 2013, being the latest practicable date before publication of this document, and 33.33 per cent. and 5 per cent. respectively of the enlarged issued Ordinary Share capital of the Company assuming that all of the Consideration Shares are issued) as if section 561(1) of the Companies Act did not apply pursuant to the above authorities.
- 3.8 Subject to the passing of the Resolutions and Admission, pursuant to the Acquisition up to 13,326,624 Consideration Shares may be issued.
- 3.9 Save for the issue of Consideration Shares pursuant to the Acquisition, or as otherwise disclosed in this document, the Directors have no present intention of exercising the authorities referred to in paragraph 3.5 above.

#### **4. SUMMARY OF THE ARTICLES OF ASSOCIATION OF PHP**

The Articles are available for inspection at the address specified in paragraph 2 of this Part 11.

##### **4.1 Articles**

The articles of association adopted by a special resolution on 6 October 2009 (the “Articles”) contain (amongst other things) provisions to the following effect:

(a) ***Votes of members***

Subject to any special terms as to voting upon which any share may be issued, or may for the time being be held, upon a show of hands every member present in person and entitled to vote has one vote and every proxy who has been duly appointed by a member entitled to vote has one vote and upon a poll every member present in person or by proxy and entitled to vote shall have one vote for every share of which he is the registered holder.

No member shall be entitled to be present or to be counted in the quorum at any general meeting unless he shall be the holder of one or more shares giving the right to attend thereat upon which all calls or other monies due and payable in respect of the same shall have been paid and no member shall be entitled to vote at any general meeting on a poll or show of hands either personally or by proxy in respect of any share upon which any call or other monies due and payable have not been paid.

(b) ***Transmission of Shares***

Save as otherwise provided by or in accordance with the Articles, a person becoming entitled to a share in consequence of the death or bankruptcy of a member shall (upon supplying to the Company such evidence as the board may reasonably require as to his title to the share) be entitled to receive, and may give a discharge for, all benefits arising or accruing on or in respect of the share and the same dividends and other advantages to which he would be entitled if he were the registered holder of the share except that he shall not be entitled in respect thereof to exercise any right conferred by membership in relation to meetings until he shall have been registered as a member in respect of the share, provided always that the board may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share and if within 60 days the notice is not complied with such person shall be deemed to have elected to be registered as a member in respect thereof and may be registered accordingly.

(c) ***Disclosure of interests in Shares***

No member shall, unless the board otherwise determines, be entitled in respect of any share or shares held by him to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or to exercise any other right conferred by membership in relation to any such meeting of the

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Company if he or any other person appearing to be interested in such share or shares has been duly served with a notice under section 793 of the Companies Act (or under any other statutory provision or provision of the Articles for the time being in force enabling the Company by notice in writing to require any persons to give any information regarding that share or those shares) which requires him or such other person to give information to the Company in accordance with such section or provision and:

- (i) he or any such person is in default in supplying to the Company the information thereby required within (A) 14 days after service of the notice (or such longer period as may be specified in such notice) if the shares specified in such notice represent at least 0.25 per cent. of the shares of the class to which such shares belong in issue on the date of service of such notice or (B) 28 days after service of the notice (or such longer period as may be specified in such notice) in any other case; or
- (ii) in purported compliance with such notice, he or any such person has made a statement which, in the opinion of the board, is false or misleading in any material particular (and in the latter case he or any such person has failed to correct such statement within a further period of 14 days after service of a further notice in writing requiring him so to correct it).

(d) ***Dividends***

Subject to any preferential or other special rights for the time being attached to any special class of shares, the profits of the Company available for distribution in accordance with the Companies Act which it shall from time to time determine to distribute by way of dividend shall be applied in payment of dividends upon the shares of the Company to the members at the date of record in accordance with their respective rights and priorities.

The Company in a general meeting may from time to time declare dividends but no such dividend shall (except as expressly authorised by the Companies Act) be payable otherwise than out of the profits of the Company available for the purpose in accordance with the Companies Act. No higher dividend shall be paid than is recommended by the board and the declaration of the board as to the amount of the profits at any time available for dividend shall be conclusive.

Subject to the provisions of the Companies Act, the board may if it thinks fit from time to time pay to the members such interim dividends as appear to the board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to any dividend and the board may also pay half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate if it is of the opinion that the profits justify the payment. Provided the directors act in a *bona fide* manner they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights.

Notwithstanding any other provision of the Articles, the board may fix a date as the record date for any dividend, distribution, allotment or issue and such record date may be on or at any time within six months before or after any date on which such dividend, distribution, allotment or issue is declared, paid or made.

With the sanction of a general meeting, dividends may be paid wholly or in part in specie and may be satisfied in whole or in part by the distribution amongst members in accordance with the rights of fully paid up shares, debentures or other securities of the Company or of any other company or of any other property suitable for distribution as

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aforesaid, provided that no distribution shall be made which would amount to a reduction of capital except in the manner approved by law. The board shall have full liberty to make all such valuations, adjustments and arrangements and to issue all such certificates or documents of title as may in its opinion be necessary or expedient with a view to facilitating the equitable distribution amongst the members of any dividends or portions of dividends to be satisfied as aforesaid or to giving them the benefit of their proper shares and interests in the property and no valuation, adjustment or arrangement so made shall be questioned by any member.

Any dividend, instalment of dividend or interest or other monies payable in cash in respect of any share may be paid by cheque or warrant payable to the order of the member entitled thereto or (in the case of joint holders) of that member whose name stands first on the register in respect of the joint holding. Every such cheque or warrant shall (unless otherwise directed) be sent by post to the last registered address of the member entitled thereto and payment of the cheque or warrant shall be a good discharge to the Company for the same. If cheques or warrants in respect of dividends are returned undelivered or are left uncashed on two consecutive occasions, or having been returned undelivered or left uncashed on one occasion and the board, on making reasonable enquiries, has failed to establish any new address of the member or person concerned then the board may determine that the Company shall cease sending such cheques or warrants by post to the member or person concerned. The Company may, if so directed, pay any dividend, instalment of dividend or interest or other monies as aforesaid by credit transfer to a bank account nominated by the member entitled to such payment which transfer shall be a good discharge to the Company for the same. Every such cheque or warrant shall be sent and every credit transfer made at the risk of the person entitled to the money represented thereby. No unpaid dividend or interest shall bear interest as against the Company.

The board may deduct from any dividend or other monies payable in respect of any shares held by a member, either alone or jointly with any other member, all such sums of money (if any) as may be due and payable by him either alone or jointly with any other person to the Company on account of calls or otherwise in respect of shares of the Company.

All unclaimed dividends may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the payment of any such dividend into a separate account or the investment of such dividend shall not constitute the Company a trustee in respect thereof. No unclaimed dividend shall bear interest as against the Company. Any dividends which remain unclaimed for a period of 12 years from the date of declaration thereof shall at the expiration of that period be forfeited and cease to remain owing to the Company and shall thenceforth belong to the Company absolutely.

The board may, in its absolute discretion, withhold the payments of any dividend to a member in respect of any share held by him in relation to which he or any other person has been duly served with a notice under section 793 of the Companies Act (or any other statutory provision or provision of the Articles for the time being in force enabling the Company by notice in writing to require any person to give any information regarding that share).

(e) ***Scrip dividends***

The board may, if authorised by ordinary resolution of the Company, offer any member of the Company the right to elect to receive shares credited as fully paid, instead of cash in respect of the whole (or some part) of any dividend specified by the ordinary resolution, subject to the provisions set out in full in article 135 of the Articles.

(f) ***Distribution of assets on a winding-up***

If the Company shall be wound up (whether the liquidation is altogether voluntary, under supervision or by the Court) the liquidator may, with the authority of a special resolution

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and subject to any provision sanctioned in accordance with section 247 of the Companies Act (without prejudice to section 187 of the Insolvency Act 1986), divide among the members in specie the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit and the liquidation of the Company may be closed and the Company dissolved, but so that no member shall be compelled to accept any shares in respect of which there is a liability. Without prejudice to section 187 of the Insolvency Act 1986, the liquidator may make any provision referred to in and sanctioned in accordance with section 247 of the Companies Act.

(g) ***Changes in capital***

The Company may, by ordinary resolution:

- (i) consolidate all or any of its share capital into shares of larger amounts than its existing shares;
- (ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person; and
- (iii) subject to the Companies Act, sub-divide all or any of its shares into shares of a smaller amount and may by resolution determine that the shares resulting from such sub-division may have any preferred or other special rights or be subject to any restrictions are compared with the others.

Subject to the provisions of the Companies Act and any confirmation or consents required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner.

(h) ***General meetings***

An annual general meeting shall be held in each year (in addition to any other meetings which may be held in that year). All general meetings other than the annual general meeting shall be called general meetings. The board shall convene, and the Company shall hold, general meetings as annual general meetings in accordance with the Companies Act. The board may convene a general meeting whenever it thinks fit.

Two members present in person or by proxy and entitled to vote upon the business to be transacted, each being a member or a proxy or authorised representative of a corporation that is a member (including two persons who are proxies or corporate representatives for the same member) shall constitute a quorum for all purposes, save as otherwise provided in the Articles. If a quorum is not present within 15 minutes from the commencement time of the meeting, the meeting will be adjourned to such time and place as the Chairman shall decide, unless the meeting was convened by or on the requisition of the members, in which case it shall be dissolved.

An annual general meeting and all other general meetings shall be called by at least such minimum period as is prescribed for traded companies under the Companies Act.

(i) ***Variation of rights and class meetings***

None of the rights, privileges or conditions for the time being attached or belonging to any class of shares forming part of the issued capital for the time being of the Company shall be modified, varied, abrogated in any manner except with the consent in writing of the holders of three quarters in nominal value of the issued shares of the class or the sanction of a special resolution passed at a separate meeting of the members of that class

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and then only subject to the provisions of section 633 of the Companies Act. To any such separate meeting all the provisions of the Articles as to general meetings shall apply *mutatis mutandis* but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons personally present and holding or representing, either by proxy or as the duly appointed representative of a corporation which is a member, at least one third of the capital paid up on the issued shares of the class, and at any adjourned meeting, one member holding shares of the class in question or his proxy, and so that any holder of shares of the class in question present in person or by proxy may demand a poll and shall be entitled on a poll to one vote for every such share held by him. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the Articles or by the terms of issue of the shares of that class, be deemed to be modified, varied or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

(j) ***Transfer of Shares***

Subject to the conditions and restrictions contained in the Articles, any member may transfer all or any of his shares by instrument of transfer but not more than one class of shares shall be transferred by one instrument of transfer.

Every transfer must be in writing in the usual common form or in such other form as the board may approve, duly stamped, and must be lodged at the office of Equiniti accompanied by the certificate of shares to be transferred (save in the case of a transfer by a nominee of a recognised investment exchange to whom no certificate was issued) and such other evidence as the board may reasonably require to prove the title of the intended transferor.

The board may refuse to register a transfer of a share unless the instrument of transfer:

- (i) is in respect of only one class of shares;
- (ii) is in favour of not more than four joint transferees;
- (iii) is duly stamped (if required); and
- (iv) is delivered for registration to the registered office of the Company or such other places as the board may decide accompanied by the share certificate or such other evidence as the board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

The board may impose restrictions upon the transfer of any share which is not fully paid, provided that the restrictions are not such as to prevent dealings in the shares from taking place on an open and proper basis.

The board may, in exceptional circumstances approved by the FCA and the London Stock Exchange, disapprove the transfer of any share, provided that exercise of such powers does not disturb the market.

The board may refuse to register the transfer of an uncertificated share in any circumstances permitted by the FCA, the London Stock Exchange, the Uncertificated Securities Regulations and the rules and practices of the operator of the relevant system.

Subject to certain exceptions, the board may, in its absolute discretion, refuse to register any transfer of shares which does not appear to it to be a transfer pursuant to an arm's length sale and which relates to shares held by a member in relation to which he or any other person appearing to be interested in such shares has been duly served with a notice under section 793 of the Companies Act (or under any other statutory provision or provision of the Articles for the time being in force enabling the Company by notice in writing to require any person to give any information regarding those shares).



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(k) ***Proceedings of the board***

The board or any committee of the board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit, and determine the quorum necessary (being at least two directors) for the transaction of business. A director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote but shall be counted in the quorum present in relation to all other matters or resolutions considered or voted on at the meeting. Meetings of the board or any committee of the board may take place in any part of the world and may take place via telephonic or similar means of communication, notwithstanding that the directors or committee members present may not all be meeting in one particular place.

A director may, and on the request of a director the secretary shall, at any time summon a meeting of the board. It shall be necessary to give notice (which need not be in written form) of a meeting of the board to all of the directors. Questions arising at any meeting of the board or any committee of the board shall be decided by a majority of votes. In the case of an equality of votes the Chairman shall have a second or casting vote.

The board or any committee of the board may from time to time elect a Chairman or Deputy Chairman who shall preside at its meetings. The board may choose one of its number to chair a meeting if the Chairman or Deputy-Chairman has not arrived within five minutes of the appointed time of the meeting. The board may delegate any of its powers to committees consisting of such member or members as it thinks fit.

All *bona fide* acts done by any meeting of the board or a committee of the board or by any person acting as director shall, notwithstanding it to be afterwards discovered that there was some defect in the appointment of any director or person acting as aforesaid or that they or any of them were disqualified or had ceased to be directors or a director, be as valid as if every such person had been duly appointed and was qualified to be and had continued to be a director.

The board shall cause proper minutes to be made of all general meetings of the Company and also of all appointments of officers and of the proceedings of all meetings of the board and committees of the board and of the attendances thereat.

A director may hold any other office or place of profit under the Company (except that of auditor) in conjunction with his office of director. A director may hold office as a director or other officer or otherwise be interested in any other company of which the Company is a member or in which the Company is otherwise interested and, unless otherwise agreed, shall not be liable to account to the Company for any remuneration or other benefits receivable by him as a director or officer of, or by virtue of his interest in, such other company.

(l) ***Directors***

Until otherwise determined by a general meeting the number of directors shall not be less than two and there shall be no maximum number. The Company may by ordinary resolution from time to time vary the minimum and maximum number of directors.

There shall be available to be paid out of the funds of the Company to the directors as fees in each year an aggregate sum not exceeding £500,000 as the board may determine, such sum to be divided among such directors in such proportion and manner as they may agree or, in default of agreement, equally provided that any such director holding the office of director for part of a year shall, unless otherwise agreed, be entitled only to a proportionate part of such fee. The Company may by ordinary resolution increase the amount of the fees payable under this Article. The provisions of this Article shall not apply to the remuneration of any Managing Director or director holding executive office whose remuneration shall be determined in accordance with the provisions of Articles 91.1 and 91.4 or Article 84.

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The directors shall also be entitled to be repaid all travelling, hotel and other expenses properly incurred by them respectively in and about the performance of their duties as directors, including their expenses of travelling to and from board or committee or general meetings.

The board (or for the avoidance of doubt a committee of the board if so authorised) may grant special remuneration to any member thereof who, being called upon, shall render any special or extra services to the Company. Such special remuneration may be made payable to such director in addition to or in substitution for his ordinary remuneration (if any) as a director, and may be payable by way of a lump sum participation in profits or otherwise as the board (or any such committee) shall determine.

(m) ***Interests of directors***

A director shall not infringe his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company as a result of any such office, employment, contract, arrangement, transaction or proposal or interest.

Without prejudice to the requirements of the Companies Act, or any other legal requirement, a director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the board. Except as provided in the Articles, a director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he or any person connected with him (within the meaning of section 252 of the Companies Act) has any interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company in respect of which he has any duty which conflicts with his duty to the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution in respect of which he is debarred from voting.

Save as provided in the articles, a director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he or any person connected with him (within the meaning of section 252 of the Companies Act) has any interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company or in respect of which he has any duty which conflicts with his duty to the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution in respect of which he is debarred from voting.

A director shall (in the absence of some other interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters namely:

- (i) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting thereof;
- (iv) any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he (together with any person connected with him within the meaning of

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section 252 of the Companies Act) is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);

- (v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the board of HMRC for taxation purposes or which does not accord to any director as such any privilege or benefit not accorded to the employees to which the scheme or fund relate;
- (vi) any contract, arrangement or proposal for the benefit of employees of the Group under which the director benefits in a similar manner as the employees or which does not accord to any director as such any privilege or benefit not accorded to the employees to which the scheme or fund relates; and
- (vii) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.

The directors may (subject to such terms and conditions, if any, as they may think fit to impose from time to time, and subject always to their right to vary or terminate such authorisation) authorise, to the fullest extent permitted by law:

- (i) any matter which would otherwise result in a director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties); and
- (ii) a director to accept or continue in any office, employment or position in addition to his office as a director of the Company and without prejudice to the generality of Article 88.1 may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises;
- (iii) provided that the authorisation is only effective if:
  - (a) any requirement as to the quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director; and
  - (b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

If a matter, or office, employment or position, has been authorised by the directors in accordance with this Article then (subject to such terms and conditions, if any, as the directors may think fit to impose from time to time, and subject always to their right to vary or terminate such authorisation or the permissions set out below):

- (i) the director shall not be required to disclose any confidential information relating to such matter, or such office, employment or position, to the Company if to make such a disclosure would result in a breach of a duty or obligation of confidence owed by him in relation to or in connection with that matter, or that office, employment or position;
- (ii) the director may absent himself from discussions, whether in meetings of the directors or otherwise, and exclude himself from information, which will or may relate to that matter, or that office, employment or position; and



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- (iii) a director shall not, by reason of his office as a director of the Company, be accountable to the Company for any benefit which he derives from any such matter, or from any such office, employment or position.

#### 4.2 Description of the REIT provisions included in the Articles

(a) ***Introduction***

The Articles contain provisions designed to enable the Company to demonstrate to HMRC that it has taken “reasonable steps” to avoid paying a dividend (or making any other distribution) to any Substantial Shareholder.

If a distribution is paid to a Substantial Shareholder and the Company has not taken reasonable steps to avoid doing so, the Company would become subject to a tax charge.

The Articles contain a special article for this purpose (the “**Special Article**”). The text of the Special Article is set out in paragraph 4.3 of this Part 11.

The Special Article:

- (a) provides directors with powers to identify its Substantial Shareholders (if any);
- (b) prohibits the payment of dividends on Ordinary Shares that form part of a Substantial Shareholding, unless certain conditions are met;
- (c) allows dividends to be paid on Ordinary Shares that form part of a Substantial Shareholding where the Shareholder has disposed of its rights to dividends on its Ordinary Shares; and
- (d) seeks to ensure that if a dividend is paid on Ordinary Shares that form part of a Substantial Shareholding and arrangements of the kind referred to in the preceding paragraph are not met, the Substantial Shareholder concerned does not become beneficially entitled to that dividend.

The effect of the Special Article is explained in more detail below.

(b) ***Identification of Substantial Shareholders***

The share register of the Company records the legal owner and the number of Ordinary Shares they own but does not identify the persons who are beneficial owners of the Ordinary Shares or are entitled to control the voting rights attached to the Consideration Shares or are beneficially entitled to dividends. While the requirements for the notification of interests in shares provided in Part VI of the Companies Act and the Board’s rights to require disclosure of such interests (pursuant to Part 22 of the Companies Act and Article 40 of the Articles) should assist in the identification of Substantial Shareholders, those provisions are not on their own sufficient.

Accordingly, the Special Article requires a Substantial Shareholder and any registered Shareholder holding Ordinary Shares on behalf of a Substantial Shareholder to notify the Company if his Ordinary Shares form part of a Substantial Shareholding. Such a notice must be given within two Business days. The Special Article gives the Board the right to require any person to provide information in relation to any Ordinary Shares in order to determine whether the shares form part of a Substantial Shareholding. If the required information is not provided within the time specified (which is seven days after a request is made or such other period as the Board may decide), the Board is entitled to impose sanctions, including withholding dividends (as described in paragraph 4.2(c) below) and/or requiring the transfer of the Ordinary Shares to another person who is not, and does not thereby become, a Substantial Shareholder (as described in paragraph 4.2(f) below).

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(c) ***Preventing payment of a dividend to a Substantial Shareholder***

The Special Article provides that a dividend will not be paid on any Ordinary Shares that the Board believes may form part of a Substantial Shareholding unless the Board is satisfied that the Substantial Shareholder is not beneficially entitled to the dividend.

If in these circumstances payment of a dividend is withheld, the dividend will be paid subsequently if the Board is satisfied that:

- (a) the Substantial Shareholder concerned is not beneficially entitled to the dividends (see also paragraph 4.2(d) below);
- (b) the shareholding is not part of a Substantial Shareholding;
- (c) all or some of the Ordinary Shares and the right to the dividend have been transferred to a person who is not, and does not thereby become, a Substantial Shareholder (in which case the dividends will be paid to the transferee); or
- (d) sufficient Ordinary Shares have been transferred (together with the right to the dividends) such that the Ordinary Shares retained are no longer part of a Substantial Shareholding (in which case the dividends will be paid on the retained Ordinary Shares).

For this purpose references to the “transfer” of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of, that New Ordinary Share.

(d) ***Payment of a dividend where rights to it have been transferred***

The Special Article provides that dividends may be paid on Ordinary Shares that form part of a Substantial Shareholding if the Board is satisfied that the right to the dividend has been transferred to a person who is not, and does not thereby become, a Substantial Shareholder and the Board may be satisfied that the right to the dividend has been transferred if it receives a certificate containing appropriate confirmations and assurances from the Substantial Shareholder. Such a certificate may apply to a particular dividend or to all future dividends in respect of Ordinary Shares forming part of a specified Substantial Shareholding, until notice rescinding the certificate is received by the Company. A certificate that deals with future dividends will include undertakings by the person providing the certificate:

- (a) to ensure that the entitlement to future dividends will be disposed of; and
- (b) to inform the Company immediately of any circumstances which would render the certificate no longer accurate.

The Directors may require that any such certificate is copied or provided to such persons as they may determine, including HMRC.

If the Board believes a certificate given in these circumstances is or has become inaccurate, then it will be able to withhold payment of future dividends (as described in paragraph 4.2(c) above). In addition, the Board may require a Substantial Shareholder to pay to the Company the amount of any tax payable (and other costs incurred) as a result of a dividend having been paid to a Substantial Shareholder in reliance on the inaccurate certificate. The Board may require a sale of the relevant shares and retain the amount claimed from the proceeds.

Certificates provided in the circumstances described above will be of considerable importance to the Company in determining whether dividends can be paid. If the Company suffers loss as a result of any misrepresentation or breach of undertaking given in such a certificate, it may seek to recover damages directly from the person who has provided it. Any such tax may also be recovered out of dividends to which the Substantial Shareholder concerned may become entitled in the future.

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The effect of these provisions is that there is no restriction on a person becoming or remaining a Substantial Shareholder provided that the person who does so makes appropriate arrangements to divest itself of the entitlement to dividends.

(e) ***Trust arrangements where rights to dividends have not been disposed of by Substantial Shareholder***

The Special Article provides that if a dividend is in fact paid on Ordinary Shares forming part of a Substantial Shareholding (which might occur, for example, if a Substantial Shareholding is split among a number of nominees and is not notified to the Company prior to a dividend payment date) the dividends so paid are to be held on trust by the recipient for any person (who is not a Substantial Shareholder) nominated by the Substantial Shareholder concerned. The person nominated as the beneficiary could be the purchaser of the Ordinary Shares if the Substantial Shareholder is in the process of selling down their holding so as not to cause the Company to breach the Substantial Shareholder rule. If the Substantial Shareholder does not nominate anyone within 12 years, the dividend concerned will be held on trust for the Company or such charity as the Board may nominate.

If the recipient of the dividend passes it on to another without being aware that the Ordinary Shares in respect of which the dividend was paid were part of a Substantial Shareholding, the recipient will have no liability as a result. However, the Substantial Shareholder who receives the dividend should do so subject to the terms of the trust and as a result may not claim to be beneficially entitled to those dividends.

(f) ***Mandatory sale of Substantial Shareholdings***

The Article also allows the Board to require the disposal of shares forming part of a Substantial Shareholding if:

- (i) a Substantial Shareholder has been identified and a dividend has been announced or declared and the Board has not been satisfied that the Substantial Shareholder has transferred the right to the dividend (or otherwise is not beneficially entitled to it);
- (ii) there has been a failure to provide information requested by the Board; or
- (iii) any information provided by any person proves materially inaccurate or misleading.

In these circumstances, if the Company incurs a charge to tax as a result of one of these events, the Board may, instead of requiring the Shareholder to dispose of the Ordinary Shares, arrange for the sale of the relevant Ordinary Shares and for the Company to retain from the sale proceeds an amount equal to any tax so payable.

(g) ***Takeovers***

The Special Article does not prevent a person from acquiring control of the Company through a takeover or otherwise, although as explained above, such an event may cause the Group to cease to qualify as a group UK-REIT.

(h) ***Other***

The Special Article also gives the Company power to require any Shareholder who applies to be paid dividends without any tax withheld to provide such certificate as the Board may require to establish the Shareholder's entitlement to that treatment.

The Special Article may be amended by special resolution passed by the Shareholders in the future, including to give powers to the Directors to ensure that the Company can comply with the close company condition described in paragraph 4.3 of this Part 11, which powers may include the ability to arrange for the sale of Ordinary Shares on behalf of Shareholders.

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### 4.3 REIT Articles 158 to 164

#### “158 *Cardinal principle*”

158.1 It is a cardinal principle that, for so long as the Company is the principal company in a UK-REIT for the purposes of Appendix 4 of the Finance Act 2006, as such Part may be modified, supplemented or replaced from time to time it should not be liable to pay tax under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such legislation may be modified, supplemented or replaced from time to time) on or in connection with the making of a Distribution.

158.2 This Article 3 supports such cardinal principle by, among other things, imposing restrictions and obligations on the shareholders of the Company and, indirectly, certain other Persons who may have an interest in the Company, and shall be construed accordingly so as to give effect to such cardinal principle.

#### 159 *Definitions and interpretation*

159.1 For the purposes of this Article, the following words and expressions shall bear the following meanings:

“Business day”	means a day (not being a Saturday or Sunday) on which banks are normally open for business in London;
“Distribution”	means any dividend or other distribution on or in respect of the shares of the Company and references to a Distribution being paid include a distribution not involving a cash payment being made;
“Distribution Transfer”	means a disposal or transfer (however effected) by a Person of his rights to a Distribution from the Company such that he is not beneficially entitled (directly or indirectly) to such a distribution and no Person who is so entitled subsequent to such disposal or transfer (whether the immediate transferee or not) is (whether as a result of the transfer or not) a Substantial Shareholder;
“Distribution Transfer Certificate”	means a certificate in such form as the directors may specify from time to time to the effect that the relevant Person has made a Distribution Transfer, which certificate may be required by the directors to satisfy them that a Substantial Shareholder is not beneficially entitled (directly or indirectly) to a Distribution;
“Excess Charge”	means, in relation to a Distribution which is paid or payable to a Person, all tax or other amounts which the directors consider may become payable by the Company or any other member of the Group under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such legislation may be modified, supplemented or replaced from time to time) and any interest, penalties, fines or surcharge attributable to such tax as a result of such Distribution being paid to or in respect of that Person;
“Group”	means the Company and the other companies in its group for the purposes of section 134 of the Finance Act 2006 (as such section may be modified, supplemented or replaced from time to time);
“HMRC”	means HM Revenue & Customs;

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“interest in the Company”	includes, without limitation, an interest in a Distribution made or to be made by the Company;
“Person”	includes a body of persons, corporate or unincorporated, wherever domiciled;
“Relevant Registered Shareholder”	means a shareholder who holds all or some of the shares in the Company that comprise a Substantial Shareholding (whether or not a Substantial Shareholder);
“Reporting Obligation”	means any obligation from time to time of the Company to provide information or reports to HMRC as a result of or in connection with the Group’s status as a group UK-REIT;
“Substantial Shareholder”	means any Person whose interest in the Company, whether legal or beneficial, direct or indirect, may cause the Company to be liable to pay tax under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such legislation may be modified, supplemented or replaced from time to time) on or in connection with the making of a Distribution to or in respect of such Person including, at the date of adoption of this Article, any holder of excessive rights as defined in the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006; and
“Substantial Shareholding”	means the shares in the Company in relation to which or by virtue of which (in whole or in part) a Person is a Substantial Shareholder.

159.2 Where under this Article any certificate or declaration may be or is required to be provided by any Person (including, without limitation, a Distribution Transfer Certificate), such certificate or declaration may be required by the directors (without limitation):

- (a) to be addressed to the Company, the directors or such other Persons as the directors may determine (including HMRC);
- (b) to include such information as the directors consider is required for the Company to comply with any Reporting Obligation;
- (c) to contain such legally binding representations and obligations as the directors may determine;
- (d) to include an undertaking to notify the Company if the information in the certificate or declaration becomes incorrect, including prior to such change;
- (e) to be copied or provided to such Persons as the directors may determine (including HMRC); and
- (f) to be executed in such form (including as a deed or deed poll) as the directors may determine.

159.3 This Article shall apply notwithstanding any provisions to the contrary in any other Article (including, without limitation, Articles 126 to 135 (Dividends)).

## 160 *Notification of Substantial Shareholder and other status*

160.1 Each shareholder and any other relevant Person shall serve notice in writing on the Company at the Office on:

- 
- (a) him becoming a Substantial Shareholder (together with the percentage of voting rights, share capital or dividends he controls or is beneficially entitled to, details of the identity of the shareholder(s) who hold(s) the relevant Substantial Shareholding and such other information, certificates or declarations as the directors may require from time to time);
  - (b) him becoming a Relevant Registered Shareholder (together with such details of the relevant Substantial Shareholder and such other information, certificates or declarations as the directors may require from time to time); and
  - (c) any change to the particulars contained in any such notice, including on the relevant Person ceasing to be a Substantial Shareholder or a Relevant Registered Shareholder.

Any such notice shall be delivered by the end of the second Business day after the day on which the Person becomes a Substantial Shareholder or a Relevant Registered Shareholder or the change in relevant particulars or within such shorter or longer period as the directors may specify from time to time.

- 160.2 The directors may at any time give notice in writing to any Person requiring him, within such period as may be specified in the notice (being seven days from the date of service of the notice or such shorter or longer period as the directors may specify in the notice), to deliver to the Company at the Office such information, certificates and declarations as the directors may require to establish whether or not he is a Substantial Shareholder or a Relevant Registered Shareholder or to comply with any Reporting Obligation. Each such Person shall deliver such information, certificates and declarations within the period specified in such notice.

161 ***Distributions in respect of Substantial Shareholdings***

- 161.1 In respect of any Distribution, the directors may, if the directors determine that the condition set out in Article 161.2 is satisfied in relation to any shares in the Company, withhold payment of such Distribution on or in respect of such shares. Any Distribution so withheld shall be paid as provided in Article 161.3 and until such payment the Persons who would otherwise be entitled to the Distribution shall have no right to the Distribution or its payment.

- 161.2 The condition referred to in Article 161.1 is that, in relation to any shares in the Company and any Distribution to be paid or made on and in respect of such shares:

- (a) the directors believe that such shares comprise all or part of a Substantial Shareholding of a Substantial Shareholder; and
- (b) the directors are not satisfied that such Substantial Shareholder would not be beneficially entitled to the Distribution if it was paid,

and, for the avoidance of doubt, if the shares comprise all or part of a Substantial Shareholding in respect of more than one Substantial Shareholder this condition is not satisfied unless it is satisfied in respect of all such Substantial Shareholders.

- 161.3 If a Distribution has been withheld on or in respect of any shares in the Company in accordance with Article 161.1, it shall be paid as follows:

- (a) if it is established to the satisfaction of the directors that the condition in Article 161.2 is not satisfied in relation to such shares, in which case the whole amount of the Distribution withheld shall be paid; and
- (b) if the directors are satisfied that sufficient interests in all or some of the shares concerned have been transferred to a third party so that such transferred shares no longer form part of the Substantial Shareholding, in which case the Distribution attributable to such shares shall be paid (provided



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the directors are satisfied that following such transfer such shares concerned do not form part of a Substantial Shareholding); and

- (c) if the directors are satisfied that as a result of a transfer of interests in shares referred to in (b) above the remaining shares no longer form part of a Substantial Shareholding, in which case the Distribution attributable to such shares shall be paid.

In this Article 161.3, references to the “transfer” of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of, that share.

- 161.4 A Substantial Shareholder may satisfy the directors that he is not beneficially entitled to a Distribution by providing a Distribution Transfer Certificate. The directors shall be entitled to (but shall not be bound to) accept a Distribution Transfer Certificate as evidence of the matters therein stated and the directors shall be entitled to require such other information, certifications or declarations as they think fit.
- 161.5 The directors may withhold payment of a Distribution on or in respect of any shares in the Company if any notice given by the directors pursuant to Article 161.1 in relation to such shares shall not have been complied with to the satisfaction of the directors within the period specified in such notice. Any Distribution so withheld will be paid when the notice is complied with to the satisfaction of the directors unless the directors withhold payment pursuant to 161.1 and until such payment the Persons who would otherwise be entitled to the Distribution shall have no right to the Distribution or its payment.
- 161.6 If the directors decide that payment of a Distribution should be withheld under Article 161.1 or Article 161.5, they shall within seven Business days give notice in writing of that decision to the Relevant Registered Shareholder.
- 161.7 If any Distribution shall be paid on a Substantial Shareholding and an Excess Charge becomes payable, the Substantial Shareholder shall pay the amount of such Excess Charge and all costs and expenses incurred by the Company in connection with the recovery of such amount to the Company on demand by the Company. Without prejudice to the right of the Company to claim such amount from the Substantial Shareholder, such recovery may be made out of the proceeds of any disposal pursuant to Article 163.2 or out of any subsequent Distribution in respect of the shares to such Person or to the shareholders of all shares in relation to or by virtue of which the directors believe that Person has an interest in the Company (whether that Person is at that time a Substantial Shareholder or not).

## 162 *Distribution trust*

- 162.1 If a Distribution is paid in respect of a Substantial Shareholding in circumstances where the Substantial Shareholder is not beneficially entitled to the Distribution, the Distribution and any income arising from it shall be held by the payee or other recipient to whom the Distribution is transferred by the payee on trust absolutely for the Persons nominated by the relevant Substantial Shareholder under Article 162.2 in such proportions as the relevant Substantial Shareholder shall in the nomination direct or, subject to and in default of such nomination being validly made within 12 years after the date the Distribution is made, for the Company or for such charity as may be nominated by the directors from time to time.
- 162.2 The relevant Substantial Shareholder of shares of the Company in respect of which a Distribution is paid shall be entitled to nominate in writing any two or more Persons (not being Substantial Shareholders) to be the beneficiaries of the trust on which the Distribution is held under Article 162.1 and the Substantial Shareholder may in any such nomination state the proportions in which the Distribution is to

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be held on trust for the nominated Persons, failing which the Distribution shall be held on trust for the nominated Persons in equal proportions. No Person may be nominated under this Article 162.2 who is, or would on becoming a beneficiary in accordance with the nomination become, a Substantial Shareholder. If the Substantial Shareholder making the nomination is not by virtue of Article 162.1 the trustee of the trust, the nomination shall not take effect until it is delivered to the Person who is the trustee.

162.3 Any income arising from a Distribution which is held on trust under Article 162.1 shall until the earlier of: (i) the making of a valid nomination under Article 162.2; and (ii) the expiry of the period of 12 years from the date when the Distribution is paid be accumulated as an accretion to the Distribution. Income shall be treated as arising when payable, so that no apportionment shall take place.

162.4 No Person who by virtue of Article 162.1 holds a Distribution on trust shall be under any obligation to invest the Distribution or to deposit it in an interest-bearing account.

162.5 No Person who by virtue of Article 162.1 holds a Distribution on trust shall be liable for any breach of trust unless due to his own wilful fraud or wrongdoing or, in the case of an incorporated Person, the fraud or wilful wrongdoing of its directors, officers or employees.

163 ***Obligation to dispose***

163.1 If at any time, the directors believe that:

- (a) in respect of any Distribution declared or announced, the condition set out in Article 161.2 is satisfied in respect of any shares in the Company in relation to that Distribution;
- (b) a notice given by the directors pursuant to Article 160.2 in relation to any shares in the Company has not been complied with to the satisfaction of the directors within the period specified in such notice; or
- (c) any information, certificate or declaration provided by a Person in relation to any shares in the Company for the purposes of the preceding provisions of Articles 158 to 164 (inclusive) was materially inaccurate or misleading,

the directors may give notice in writing (a “Disposal Notice”) to any Persons they believe are Relevant Registered Shareholders in respect of the relevant shares requiring such Relevant Registered Shareholders within 21 days of the date of service of the notice (or such longer or shorter time as the directors consider to be appropriate in the circumstances) to dispose of such number of shares the directors may in such notice specify or to take such other steps as will cause the condition set out in Article 161.2 no longer to be satisfied. The directors may, if they think fit, withdraw a Disposal Notice.

163.2 If:

- (a) the requirements of a Disposal Notice are not complied with to the satisfaction of the directors within the period specified in the relevant notice and the relevant Disposal Notice is not withdrawn; or
- (b) a Distribution is paid on a Substantial Shareholding and an Excess Charge becomes payable,

the directors may arrange for the Company to sell all or some of the shares to which the Disposal Notice relates or, as the case may be, that form part of the Substantial Shareholding concerned. For this purpose, the directors may make such arrangements as they deem appropriate. In particular, without limitation, they may



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authorise any officer or employee of the Company to execute any transfer or other document on behalf of the holder or holders of the relevant share and, in the case of a share in uncertificated form, may make such arrangements as they think fit on behalf of the relevant holder or holders to transfer title to the relevant share through a relevant system.

- 163.3 Any sale pursuant to Article 163.2 above shall be at the price which the directors consider is the best price reasonably obtainable and the directors shall not be liable to the holder or holders of the relevant share for any alleged deficiency in the amount of the sale proceeds or any other matter relating to the sale.
- 163.4 The net proceeds of the sale of any share under Article 163.2 (less any amount to be retained pursuant to Article 161.7 and the expenses of sale) shall be paid over by the Company to the former holder or holders of the relevant share upon surrender of any certificate or other evidence of title relating to it, without interest. The receipt of the Company shall be a good discharge for the purchase money.
- 163.5 The title of any transferee of shares shall not be affected by an irregularity or invalidity of any actions purportedly taken pursuant to Articles 158 to 164 (inclusive).

164 **General**

- 164.1 The directors shall be entitled to presume without enquiry, unless any director has reason to believe otherwise, that a Person is not a Substantial Shareholder or a Relevant Registered Shareholder.
- 164.2 The directors shall not be required to give any reasons for any decision or determination (including any decision or determination not to take action in respect of a particular Person) pursuant to Articles 158 to 164 (inclusive) and any such determination or decision shall be final and binding on all Persons unless and until it is revoked or changed by the directors. Any disposal or transfer made or other thing done by or on behalf of the board or any director pursuant to Articles 158 to 164 (inclusive) shall be binding on all Persons and shall not be open to challenge on any ground whatsoever.
- 164.3 Without limiting their liability to the Company, the directors shall be under no liability to any other Person, and the Company shall be under no liability to any shareholder or any other Person, for identifying or failing to identify any Person as a Substantial Shareholder or a Relevant Registered Shareholder.
- 164.4 The directors shall not be obliged to serve any notice required under Articles 158 to 164 (inclusive) upon any Person if they do not know either his identity or his address. The absence of service of such a notice in such circumstances or any accidental error in or failure to give any notice to any Person upon whom notice is required to be served under Articles 158 to 164 (inclusive) shall not prevent the implementation of or invalidate any procedure under this Articles 158 to 164 (inclusive).
- 164.5 The provisions of Articles 148 to 155 (Notices) shall apply to the service upon any Person of any notice required by this Article. Any notice required by Articles 158 to 164 (inclusive) to be served upon a Person who is not a shareholder or upon a Person who is a shareholder but whose address is not within the United Kingdom and who has failed to supply to the company an address within the United Kingdom pursuant to Article 150, shall be deemed validly served if such notice is sent through the post in a pre-paid cover addressed to that Person or shareholder at the address if any, at which the directors believe him to be resident or carrying on business or, in the case of a holder of depository receipts or similar securities, to the address, if any, in the register of holders of the relevant securities. Service shall, in such a case be deemed to be effected on the day of posting and it shall be sufficient proof of service if that notice was properly addressed, stamped and posted.

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164.6 Any notice required or permitted to be given pursuant to Articles 158 to 164 (inclusive) may relate to more than one share and shall specify the share or shares to which it relates.

164.7 The directors may require from time to time any Person who is or claims to be a Person to whom a Distribution may be paid without deduction of tax under Regulation 7 of the Real Estate Investment Trusts (Assessment and Recovery of Tax) Regulations 2006 to provide such certificates or declarations as they may require from time to time.

164.8 These Articles may be amended by special resolution from time to time, including to give powers to the directors to take such steps as they may require in order to ensure that the Company can satisfy Condition 4 of Section 106 of the Finance Act 2006 (as such section may be modified, supplemented or replaced from time to time) which relates to close company status, which powers may include the ability to arrange for the sale of shares on behalf of shareholders.”

## **5. MANDATORY TAKEOVER BIDS AND SQUEEZE-OUT AND SELL-OUT RULES**

### **5.1 Mandatory bids**

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of an acquirer and its concert parties to an interest in Ordinary Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending upon the circumstances, its concert parties, would be required (except with the consent of The Panel on Takeovers and Mergers) to make a cash offer for the outstanding Ordinary Shares in the Company at a price not less than the highest price paid for the Ordinary Shares in the Company by the acquirer or its concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of Ordinary Shares by a person holding (together with its concert parties) Ordinary Shares carrying between 30 to 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

### **5.2 Squeeze-out**

Under the Companies Act, if an offeror were to acquire, or unconditionally contract to acquire 90 per cent. of the shares to which the offer relates and 90 per cent. of the voting rights attached to those shares, within three months of the last day on which its offer can be accepted, it could compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose shares are compulsorily acquired under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

### **5.3 Sell-out**

The Companies Act would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares to which the offer relates, any holder of shares to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of the right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after

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the end of the acceptance period. If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

**5.4 Takeover bids**

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

**6. DIRECTORS OF THE COMPANY**

6.1 The Directors, and their principal functions are as follows:

Name	Position
<b><i>Directors</i></b>	
Graeme Elliot	<i>Non-Executive Chairman</i>
Alun Jones	<i>SID</i>
Harry Hyman	<i>Managing Director</i>
Mark Creedy	<i>Non-Executive Director</i>
William Hemmings	<i>Non-Executive Director</i>
James Hambro	<i>Non-Executive Director</i>
Ian Rutter	<i>Non-Executive Director</i>

6.2 The business address of each of the Directors is Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB (Tel: +44 (0)20 7747 5678).

6.3 The biographical details of the Directors are set out in paragraph 9 of Part 3 of this document.

6.4 In addition to their directorships of PHP and companies in the PHP Group, the Directors hold or have held the following directorships and/or have been partners of the following partnerships in the five years before the date of this document:

(i) ***Graeme Arthur Elliot***

**Current**

**Former**

AMH Investments (dissolved 2010)  
Automotive Precision Holdings PLC  
(dissolved 2009)  
Sevco 5001  
Ferbico Unlimited (dissolved 2010)

(ii) ***Alun Jones***

**Current**

**Former**

The Bothy Limited

(iii) ***Harry Abraham Hyman***

**Current**

**Former**

Cygnetsure Care Limited	Aberdeen High Income Trust PLC
Landor Productions Limited (in liquidation)	(dissolved 2012)
Nexus Group Holdings Limited	Barrett's Oesophagus Campaign
Nexus Structured Finance Limited	Cashew Holdings Limited
(in liquidation)	Freshtl PLC
Nexus Fund Management Limited	General Medical Clinics PLC
Investor Publishing Limited	Griffin House (2011) Ltd (dissolved 2012)
EducationInvestor Limited	Oak Tree Nursery Investments Limited
HealthInvestor Limited	Skinklinic Limited (dissolved 2008)
Nexus Capital Finance Limited	UK Israel Business
Nexus Property Management Services Limited	
Nexus Health Finance Limited	
Nexus Consulting (UK) Limited	

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(iii) **Harry Abraham Hyman** (*continued*)

**Current**

Nexus Management Services Limited  
Nexus PINE (Management) Limited  
Nexus PHP Management Limited  
Nexus General Partner Limited  
The Quoted Companies Alliance  
Pine Property Services Limited  
Nexus Central Management Services Ltd  
Nexus Healthcare REIT Management  
Limited  
NHR Acquisitions Limited  
The Healthcare REIT Limited  
Nexus Tradeco Limited  
Nexus Investco Limited  
Nexus Code Limited  
The Opera Awards Limited  
The Opera Awards Foundation  
I Value PLC (in liquidation)

**Former**

(iv) **Mark Creedy**

**Current**

LSAV (GP) Limited

**Former**

Arlington Business Parks GP Limited  
Arndale Centre Nominee (No. 1) Limited  
Arndale Centre Nominee (No. 2) Limited  
Broad St. Reading Nominee (No. 1) Limited  
Broad St. Reading Nominee (No. 2) Limited  
Bucklersbury House General Partner Limited  
Central Saint Giles General Partner Limited  
Chineham General Partner Limited  
Ealing General Partner Limited  
Golden Square Nominee (No. 1) Limited  
Golden Square Nominee (No. 2) Limited  
The Grange Birkenhead Nominee (No. 1) Limited  
The Grange Birkenhead Nominee (No. 2) Limited  
Gresham Street General Partner Limited  
Latchmore Park Nominee No. 1 Limited  
Lawgra (No. 240) Limited  
Legal and General Leisure Fund Trustee Limited  
Legal and General (Meteor) Limited  
Legal and General Property Limited  
Legal and General Property Fund Managers  
Limited (dissolved 2011)  
Legal and General Property Partners (Industrial  
Fund) Limited  
Legal and General Property Partners (Leisure)  
Limited  
Legal and General Property Partners (Operator)  
Limited  
Logistics Management Limited  
Meteor (GP) Limited  
Meteor Properties No. 1 Limited  
Meteor Properties No. 2 Limited  
The New Bracknell Company Limited  
Northampton General Partner Limited

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(iv) <b>Mark Creedy</b> ( <i>continued</i> ) Current	<b>Former</b> Performance Retail (General Partner) Limited Performance Retail (Nominee) Limited PSCP (General Partner) Limited Sauchiehall Trustee Limited The UK Logistics General Partner Limited Warrington (General Partner) Limited Warrington Nominee Limited
(v) <b>William Hemmings</b> Current Select Funds International plc	<b>Former</b> New City High Yield Trust plc Aberdeen Convertible Income Trust plc
(vi) <b>James Daryl Hambro</b> Current Wiltons (St. James's) Limited Wiltons Holdings Limited Henniker Mews Resident's Association Limited Circle Property Management Limited Franco's Limited Hansteen Holdings PLC Kimberley Farms Limited I Hennig & Co Limited James Hambro & Partners LLP Runnall Limited J O Hambro Capital Management Holdings Limited JH & P Holdings Limited James Hambro & Company Limited	<b>Former</b> AHG (2006) Limited Amati VCT 2 Plc Anchor Meadow Limited Barrett & Cooke Limited CCH Advisers Limited Ceres Investments Limited (dissolved 2010) CGH Advisers Limited Circle General Partner Limited Circle Investment Advisers Limited Enterprise Capital PLC (dissolved 2012) Further Signed Limited (dissolved 2009) Harwood Capital Management Limited Harwood Holdco Limited Harwood Real Estate Limited J O Hambro Capital Limited J O Hambro Capital Management Limited J O Hambro Capital Management Unit Trust Managers Limited (dissolved 2012) J O Hambro Unit Trust Managers Limited JOHCMG Share Trustee Limited Merchant Properties General Partner Limited Merchant Properties Two General Partner Limited Merchant Properties Two Nominee 1 Limited Merchant Properties Two Nominee 2 Limited Merchant Properties Nominees Limited Redefine International Property Management Limited Wichford Carlisle Limited Wichford (Coventry Road) Limited (in liquidation) Wichford Property General Partner Limited
(vii) <b>Ian Rutter</b> Current	<b>Former</b> Aaicann Limited Selective Networks Ltd Westcliffe Pharma Ltd (dissolved 2013)

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- 6.5 Harry Hyman was and remains a director of Landor Productions Limited, over which liquidators were appointed on 28 February 2013 pursuant to members' voluntary winding up and the liquidation is ongoing. He was and remains a director of I Value PLC, over which liquidators were appointed on 10 June 2004 pursuant to members' voluntary winding up and the liquidation of this company is also ongoing. He was and remains a director of Nexus Structured Finance Limited, over which liquidators were appointed on 13 July 2013 pursuant to a members' voluntary winding up and the liquidation is ongoing.
- 6.6 Save as disclosed in this paragraph 6 of this Part 11 and at the date of this document none of the Directors of PHP has at any time in the five years preceding the date of this document:
- (a) been a director or partner of any companies or partnerships; or
  - (b) had any convictions in relation to fraudulent offences (whether spent or unspent); or
  - (c) been adjudged bankrupt or entered into an individual voluntary arrangement; or
  - (d) been a director of a company which has been placed into receivership, compulsory liquidation, creditors' voluntary liquidation or administration, or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or with any class of its creditors, at any time while he was a director of that company or within 12 months after his ceasing to be a director; or
  - (e) been a partner or senior manager in a partnership which, while he was a partner or senior manager or within 12 months of his ceasing to be a partner or senior manager, was put into compulsory liquidation or administration or entered into any partnership voluntary arrangement or had a receiver appointed over any partnership asset; or
  - (f) had a receiver appointed with respect to any assets belonging to him or a partnership of which he has been a partner; or
  - (g) been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of any company.
- 6.7 None of the Directors has any family relationship with another Director. Save as disclosed in paragraph 7.8 below, none of the Directors has any potential conflicts of interest between their duties to the Company and their private interests or other duties.

## **7. TERMS OF APPOINTMENT, REMUNERATION AND BENEFITS OF DIRECTORS**

- 7.1 No director has a service contract with the Company nor are they appointed for a specific term of office.
- 7.2 The contracts for the services of Messrs Hambro and Hyman are with JOHCM and Nexus respectively pursuant to the Advisory Agreement.
- 7.3 There are letters of appointment in place for the five other Directors. These provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles, 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.
- 7.4 Directors' fees are determined by the Company's remuneration committee subject to the limits set out in the Articles. Fee increases are reviewed annually by the remuneration committee, most recently from 1 January 2013. Directors' fees are currently £27,500 per annum for each of the Directors and £36,000 per annum for the Chairman. In addition, Alun Jones receives a fee of £5,500 per annum, reviewed annually, in respect of his services as chairman of the audit committee.
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- 7.5 There are no outstanding loans granted by the Company or its subsidiaries to the Directors.
- 7.6 There are no guarantees provided by the Company or its subsidiaries entered into for the benefit of any Director.
- 7.7 No amounts have been set aside or accrued by the Group to provide pension, retirement or similar benefits to the Directors.
- 7.8 Harry Hyman is a director of Nexus and a director and shareholder of Nexus Group Holdings Limited. James Hambro is Chairman of J O Hambro Capital Management Holdings Limited, parent company of JOHCM, and an indirect shareholder in, JOHCM. Messrs Hambro and Hyman are therefore deemed to have an interest in the Advisory Agreement which gives rise to a conflict of interests, further details of the Advisory Agreement are set out in paragraph 15.4 of this Part 11.
- 7.9 The aggregate remuneration paid to the Directors for the year ended 31 December 2012 was as follows:

	Year ended 31 December 2012 (£)
Graeme Elliot	32,500
Harry Hyman	25,000
Alun Jones	30,000
James Hambro	25,000
Martin Gilbert (resigned 14 June 2012)	11,575
Williams Hemmings (appointed 18 June 2012)	13,425
Dr Ian Rutter	25,000
Mark Creedy	25,000
	187,500

No Director received any benefits in kind.

- 7.10 The estimated aggregate remuneration likely to be paid to the Directors for the financial period of the Company ending on 31 December 2013 is £206,500.

## **8. INTERESTS OF DIRECTORS IN THE COMPANY**

Save as set out in paragraphs 8.1 and 8.2 below, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

### **8.1 Directors' shareholdings**

The interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of the Company or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director) interests of a person connected (within the meaning of the Disclosure and Transparency Rules) with a Director and the existence of which was known to or could, with reasonable diligence, be ascertained by the Directors as at 14 November 2013 (the latest practicable date prior to the publication of this document) are as follows:



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Name	As at 13 November 2013	
	Number of Ordinary Shares	Percentage of existing issued share capital
Graeme Elliot	16,500	0.02
Alun Jones	22,500	0.02
Harry Hyman <sup>(1)</sup>	4,095,935	4.18
Mark Creedy <sup>(2)</sup>	12,635	0.01
James Hambro <sup>(3)</sup>	552,184	0.56
William Hemmings	5,266	0.01
Dr Ian Rutter	9,144	0.01

(1) This includes 6,782 Ordinary Shares held beneficially on behalf of Anita Hyman, and 4,000,000 Ordinary Shares held non-beneficially on behalf of Nexus Group Holdings Limited, and 23,357 held non-beneficially on behalf of Directors of Nexus Group Holdings Limited.

(2) This includes 635 Ordinary Shares held non-beneficially on behalf of Ann Mogridge.

(3) This includes 503,327 Ordinary Shares held non-beneficially on behalf of J O Hambro Capital Management Limited.

Taken together, the combined percentage interest of the Directors in the issued ordinary share capital of the Company as at 14 November 2013 (being the latest practicable date prior to the publication of this document) was approximately 4.8 per cent.

The interests set out in this paragraph 8.1 are based upon the interests of Directors in Ordinary Shares, which:

- (a) have been notified by each Director pursuant to Chapter 3 of the Disclosure and Transparency Rules before 14 November 2013 (being the latest practicable date prior to the publication of this document); or
- (b) are interests of a connected person (within the meaning of the Disclosure and Transparency Rules) of a Director who have been notified to the Company by each such connected person pursuant to Chapter 3 of the Disclosure and Transparency Rules.

## 8.2 Pledges of Ordinary Shares

As at 14 November 2013 (the latest date practicable prior to the publication of this document), the 4,000,000 Ordinary Shares held by Nexus Group Holdings Limited are subject to a debenture and fixed charge over all of that company's assets to its bank. The Company has been informed that Nexus Group Holdings Limited, which has drawn down approximately £4.51 million of its term loan with its bank, is not currently in default in any of its banking commitments and has no current intention of selling any of its shares in the Company.

## 8.3 Directors' options and awards

As at 14 November 2013 (being the last practicable date prior to the publication of this document), the Directors held no options or awards to subscribe for Ordinary Shares, under any share plans which may be satisfied by a subscription for Ordinary Shares, save for Harry Hyman, who had 6,852 shares in the PHP Share Scheme direct, and 6,782 held by Anita Hyman, and William Hemmings, who had 5,266 shares in the PHP Share Scheme.

## 9. INTERESTS OF SIGNIFICANT SHAREHOLDERS IN THE COMPANY

- 9.1 As at 14 November 2013 (being the last practicable date prior to the publication of this document), the Company had been notified of or was otherwise aware of the following Shareholders who were directly or indirectly interested in three per cent. or more of the issued Ordinary Shares:



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Name	As at 14 November 2013	
	Ordinary Shares	Percentage of existing issued share capital
Investec Wealth & Investment	6,008,750	6.14
Troy Asset Management	4,470,000	4.57
Nexus Group Holdings Limited <sup>(1)</sup>	4,000,000 <sup>(2)</sup>	4.09
Brooks Macdonald Asset Management	3,954,668	4.04
Charles Stanley	3,874,625	3.96
Brewin Dolphin	3,818,987	3.90
CCLA Investment Management	3,815,000	3.90
BlackRock	3,530,025	3.61
Hargreaves Lansdown	3,167,241	3.24
Legal & General Investment Management	3,159,148	3.23
Cheviot Asset Management	2,952,847	3.02

(1) Nexus Group Holdings Limited is connected to Harry Hyman.

(2) These Ordinary Shares are subject to a debenture and fixed charge over all of Nexus Group Holdings Limited's assets to its bank.

- 9.2 Save as disclosed in this paragraph 9, the Company is not aware of any person who, as at 14 November 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds three per cent. (and in the case of a fund management holding company, five per cent.) of the total voting rights attaching to its issued share capital.
- 9.3 The Company is not aware of any person who, as at 14 November 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercises or could exercise control over the Company, nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 9.4 None of the Shareholders referred to in this paragraph 9 has different voting rights from any other holder of Ordinary Shares in respect of such shares held by them.

## **10. CORPORATE GOVERNANCE AND SHAREHOLDERS' SAFEGUARDS**

### **10.1 General**

Throughout the financial year ended 31 December 2012 and up to and including the date of this document the Company considers that it has complied with the Corporate Governance Code with the exception that:

- (a) it does not have an internal audit function;
- (b) non-executive directors are not appointed for a specific term; and
- (c) certain Directors have served on the Board for more than three terms of three years.

The Board believes that, due to the size of the Group, compliance with these provisions of the Corporate Governance Code is not necessary to ensure that the Board and the Group operates consistently with the overriding principles of good corporate governance encompassed in the Corporate Governance Code. All Directors are subject to rigorous review and performance evaluation procedures and will be subject to annual re-election.

The Corporate Governance Code provides that the board of directors of a United Kingdom company should include a balance of executive and non executive directors, with independent non executive directors (excluding the Chairman) comprising at least one half of the board. The Corporate Governance Code states that the board should determine whether a director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

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The Corporate Governance Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. Listed companies are required to report on how they have applied the main principles of the Corporate Governance Code, and either to confirm that they have complied with the Corporate Governance Code's provisions or, where they have not, to provide an explanation.

The Board consists of seven directors, one Managing Director (Harry Hyman), one Non-Executive Chairman (Graeme Elliott) and five non executive directors. PHP regards three of the non executive directors (Alun Jones, Ian Rutter and Mark Creedy) to be independent within the meaning of the Corporate Governance Code.

The Corporate Governance Code recommends that a board of directors should appoint one of its independent non-executive directors to be the SID. The SID should be available to shareholders if they have concerns that the normal channels of chairman, Managing Director or other non-executive directors have failed to resolve or if such channel of communication is inappropriate. PHP's SID is Alun Jones.

## 10.2 Committees

The Board is currently assisted in fulfilling its responsibilities by five committees, being the audit, nomination, remuneration, management engagement and standing committees. The terms of reference for these committees are set out below.

### (a) *Audit committee*

The audit committee comprises Alun Jones (Chairman), Graeme Elliott, Ian Rutter and Mark Creedy, though other directors may be invited to attend. The committee meets at least twice each year and the committee holds regular meetings with representatives of the Joint Advisers, and with the external auditors.

The committee's main objectives are, *inter alia*, to monitor the integrity of the Group's financial statements and the robustness of the financial, operational, compliance controls and systems of risk management relied on by the Group.

The committee also reviews any matters raised by the external auditors. The external auditors are invited to attend meetings regularly. The external auditors have unrestricted access to the members of the audit committee, and the committee ensures that meetings are used as an open avenue of communication between the external auditors and the Board. The committee receives regular updates and monitors the status of actions taken by management to address issues raised. The Joint Advisers provide periodic reports to the audit committee to assist with their review of risk assessment and internal controls in place. The Joint Advisers also meet with the audit committee to review the audit plans and progress, accounting processes and early drafts of the financial reports.

The audit committee is responsible for recommending the appointment and termination of external auditors and their terms of reference; assessing their performance; receiving regular reports; determining their independence; approving their fees and conducting an audit tender process when appropriate. The audit committee may request the assistance of the Joint Advisers where necessary in assessing the performance of the external auditors.

### (b) *Nomination committee*

The nomination committee comprises Ian Rutter (Chairman), Alun Jones and Mark Creedy. It reviews from time to time the combination and balance of experience, core competencies and other attributes which the non-executive directors should bring to the board in discharging its role in nominating any new directors and in considering succession planning.

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(c) ***Remuneration committee***

The remuneration committee comprises Ian Rutter (Chairman), Alun Jones and Mark Creedy.

The remuneration committee determines appropriate levels of remuneration for Directors. The remuneration committee currently reviews the Directors' fees for increases on an annual basis.

(d) ***Management Engagement Committee***

The management engagement committee comprises Mark Creedy (Chairman), Alun Jones and Ian Rutter and meets at least annually to review the terms of external advisory appointments and the performance of external advisers such as the Joint Advisers.

(e) ***Standing committee***

The standing committee consists of Graeme Elliot, Harry Hyman and James Hambro. The committee has the authority to and sets 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.

## **11. UK TAXATION**

### **11.1 General**

The following statements are intended to apply only as a general guide to current UK tax law and to the current published practice of HMRC, both of which are subject to change at any time, possibly with retrospective effect. They are intended to apply only to Shareholders who are resident in the UK for UK tax purposes, who hold the Ordinary Shares as investments and not as securities to be realised in the course of a trade, have not (and are not deemed to have) acquired their Shares by virtue of an office or employment (whether current, historic or prospective) and are not officers or employees of any member of the Group, and who are the direct beneficial owners of the Ordinary Shares (and the shares are not held through an Individual Savings Account or a Self Invested Personal Pension). The statements may not apply to certain classes of Shareholders such as dealers in securities. Any Shareholders who are in any doubt as to their tax position regarding the acquisition, ownership or disposal of the Ordinary Shares, or who are subject to tax in a jurisdiction other than the UK, should consult their own tax advisers.

### **11.2 Capital gains**

The disposal (or deemed disposal) by a Shareholder of Ordinary Shares may, depending on the Shareholder's circumstances, render the Shareholder liable to UK tax on capital gains. If the proceeds resulting from the disposal (or deemed disposal) do not exceed the greater of five per cent. of the market value (on the date of the disposal or deemed disposal) of his corresponding shareholding in the capital of the Company or three thousand pounds (£3,000) (or in exceptional circumstances a greater amount), the Shareholder is not treated as making a disposal for the purposes of UK tax on capital gains but instead the proceeds are deducted from the acquisition cost of his corresponding holding.

A disposal by a Shareholder within the charge to UK capital gains tax, such as an individual, trustee or personal representative, will, subject to the availability to the Shareholder of any exemptions, reliefs and/or allowable losses, be subject to tax on any gain arising at the rate of 18 per cent. or 28 per cent, depending on whether the Shareholder is a basic rate or higher or additional rate taxpayer.

Individuals who are temporarily non-UK resident may, in certain circumstances, be subject to tax in respect of gains realised whilst they are not resident in the UK.

A disposal by a Shareholder within the charge to UK corporation tax, such as a company or unincorporated association other than a partnership, will, subject to the availability to the

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Shareholder of any exemptions, reliefs and/or allowable losses, be subject to tax on any gain at the company's rate of corporation tax for the accounting period in which the gain accrued.

### 11.3 Dividends

A REIT may distribute property income distribution ("PID") dividends (which, from 17 July 2013, may include share capital issued in lieu of dividends) and non property income dividends. The tax treatment may vary in each case.

(a) ***PID dividends***

(i) *Withholding tax*

(A) *General*

Subject to certain exemptions, the Company is required to withhold income tax at source at the basic rate (currently 20 per cent.) from its PIDs. The Company must on request provide Shareholders with a certificate setting out the gross amount of the PID, the amount of tax withheld and the net amount of the PID. A reduced treaty rate must be reclaimed by the recipient.

(B) *Shareholders solely resident and ordinarily resident in the UK*

Where tax has been withheld at source, shareholders who are individuals may, depending on their individual circumstances, either be liable to further tax on their PID at their applicable marginal rate, or be entitled to claim repayment of some or all of the tax withheld on their PID. Shareholders who are corporates will in general, depending on their individual circumstances, be liable to pay corporation tax (currently 23 per cent. on their PID and if income tax has been withheld at source that tax can be set against the liability to corporation tax in the period in which the PID is received.

(C) *Shareholders who are not resident for tax purposes in the UK*

It is not possible for a Shareholder to make a claim under a double taxation treaty for a PID to be paid by the Company gross or at a reduced rate. The right of a Shareholder to claim repayment of any part of the tax withheld from a PID will depend on the existence and terms of any double tax convention between the UK and the country in which the Shareholder is resident. Any refund claim under a double tax treaty would need to be made to HMRC.

(D) *Exceptions to requirement to withhold income tax*

Shareholders should note that in certain circumstances the Company must not withhold income tax at source from a PID. These (as set out in regulation 7 of the Real Estate Investment Trusts (Assessment and Recovery of Tax) Regulations 2006) include where the Company reasonably believes that the person beneficially entitled to the PID is a company resident for tax purposes in the UK (or a company resident for tax purposes outside the UK which is trading through a permanent establishment in the UK) or a charity or a body mentioned in section 468 of the Corporation Tax Act 2010 which is allowed the same exemption from tax as charities. They also include where the Company reasonably believes that the PID is paid to the scheme administrator of a registered pension scheme, or the sub-scheme administrator of certain pension sub-schemes, the account manager of an Individual Savings Account ("ISA"), or the account provider for a child trust fund, in each case, provided the Company reasonably believes that the PID will be applied for the purposes of the relevant fund, scheme, account or plan.

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The Company will also not be required to withhold income tax at source from a PID where the Company reasonably believes that the body beneficially entitled to the PID is a partnership each member of which is a body described in the paragraph above. In order to pay a PID without withholding tax, the Company will need to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose, the Company will require such shareholders to submit a valid claim form (copies of which may be obtained on request) from the Company's Registrars. Shareholders should note that the Company may seek recovery from shareholders if the statements made in their claim form are incorrect and the Company suffers tax as a result. The Company will, in some circumstances, suffer tax if its reasonable belief as to the status of the shareholder turns out to have been mistaken.

(ii) *Individuals*

Subject to certain exceptions, a PID will generally be treated in the hands of Shareholders who are individuals as the profit of a single UK property business (as defined in section 264 of the Income Tax (Trading and other Income) Act 2005). A PID is, together with any property income distributions from any other company which is within the REIT regime, treated as a separate UK property business from any other UK property business (a "different UK property business") carried on by the relevant Shareholder. This means that surplus expenses from a Shareholder's different UK property business cannot be off-set against a PID as part of a single calculation of the profits of the Shareholder's UK property business. Please also refer to the paragraph above relating to withholding tax.

(iii) *Companies*

Subject to certain exceptions, a PID will generally be treated in the hands of Shareholders who are within the charge to corporation tax as profit of a property business (as defined in section 205 of the Corporation Taxes Act 2009). This means that, subject to the availability of any exemptions or reliefs, such Shareholders should be liable to corporate tax on income on the entire amount of their PID. A PID is, together with any property income distribution from any other company which is within the REIT regime, treated as separate from any other property business (a "different property business") carried on by the relevant Shareholder. This means that any surplus expenses from a Shareholder's different property business cannot be offset against PID as part of a single calculation of the Shareholder's property profits. A withholding will not generally be made on a PID paid to a Shareholder within the charge to corporation tax.

(iv) *Non-residents*

Where a Shareholder who is resident outside the UK receives a PID, the PID will generally be chargeable to UK income tax as profit of a UK property business and this tax will generally be collected by way of a withholding (please refer to the paragraph relating to withholding tax above). Such shareholders may also be subject to tax on such PIDs under any law to which they are subject outside the UK. Such shareholders should consult their own tax adviser concerning their tax liabilities on any PIDs received from the Company.

(b) ***Non-PID Dividends***

(i) *Withholding tax*

Under current UK tax law, the Company will not be required to withhold tax at source from Non-PID Dividend payments it makes.

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(ii) *Individuals*

An individual Shareholder who is resident in the UK for tax purposes and who receives a Non-PID Dividend from the Company will be entitled to a tax credit which may be set off against his total income tax liability on the Non-PID Dividend. Such an individual Shareholder's liability to income tax is calculated on the aggregate of the Non-PID Dividend and the tax credit (the gross dividend) which will be regarded as the top slice of the individual's income. The tax credit will be equal to 10 per cent. of the gross dividend (i.e. the tax credit will be one-ninth of the amount of the cash Non-PID Dividend received).

A UK resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to any payment from HMRC in respect of any part of the tax credit. A UK resident individual Shareholder who is liable to income tax at a rate not exceeding the basic rate will be subject to income tax on the Non-PID Dividend at the rate of 10 per cent. of the gross Non-PID Dividend so that the tax credit will satisfy in full such Shareholder's liability to income tax on the Non-PID Dividend. A UK resident individual Shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. but will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that such a Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash Non-PID Dividend received).

UK tax resident individual Shareholders who have taxable income above £150,000 will be liable to income tax at the additional rate of 37.5 per cent. The effective rate of tax to a higher rate taxpayer is 30 and 5/9 per cent. of the cash dividend received.

(iii) *Companies*

Non-PID Dividends received by a UK company from another UK resident company are taxable subject to a number of exemptions. It is expected that generally one of these exemptions would apply to exempt a UK resident corporate shareholder from tax on the receipt of any Non-PID Dividend received from the Company in respect of the New Shares.

(iv) *Non-residents*

Non-UK resident Shareholders may be liable to foreign taxation on Non-PID Dividends paid by the Company. Shareholders who are not resident in the UK will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to Non-PID Dividends paid by the Company. Such shareholders should consult their own tax advisers concerning their tax liabilities on Non-PID Dividends received from the Company, whether they are entitled to claim a repayment of any part of the tax credit and, if so, the procedure for doing so.

(v) *Pension funds*

UK pension funds will not be entitled to any payment from HMRC in respect of the tax credit attaching to any Non-PID Dividend paid by the Company.

#### 11.4 Stamp duty and SDRT

Where Ordinary Shares are issued there is generally no charge to stamp duty or SDRT, subject to the special rules referred to below.

Subject to an exemption for certain low value transactions, the transfer or sale of Ordinary Shares will be liable to *ad valorem* stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of five pounds (£5)) of the consideration paid. Stamp duty is normally the

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liability of the purchaser or transferee of the Ordinary Shares. An unconditional agreement to transfer such shares will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such shares, but such liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser or transferee of the Ordinary Shares.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the HMRC by Euroclear.

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person, including market makers, brokers, dealers and persons connected with depositary arrangements and clearance services, are not liable to stamp duty or SDRT and others including persons connected with depositary arrangements and clearance services, may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

## 12. SUBSIDIARY UNDERTAKINGS

The Company is the holding company of the Group and has the following principal subsidiary undertakings each of which is directly or indirectly owned by the Company. In each case the issued share capital of each is fully paid. Each of the companies listed below are incorporated in England and Wales. Details of those companies and entities which are the Company's principal subsidiaries and associated undertakings (each of which is considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Combined Group) are as follows:

Subsidiary	Holding	Percentage of equity and voting rights held	Country of incorporation	Principal activity
Primary Health Investment Properties Limited (PHIP)	Ordinary Shares	100	UK	Property investment
Primary Health Investment Properties (No. 2) Limited (PHIP No. 2)	Ordinary Shares	100	UK	Property investment
Primary Health Investment Properties (No. 3) Limited (PHIP No. 3)	Ordinary Shares	100	UK	Property investment
Primary Health Investment Properties (No. 4) Limited (PHIP No. 4)	Ordinary Shares	100	UK	Non-trading
PHP Empire Holdings Limited	Ordinary Shares	100	UK	Property investment
PHIP (5) Limited	Ordinary Shares	100	UK	Property investment
PatientFirst Partnership Limited	Ordinary Shares	100	UK	Property investment
PatientFirst (Hinckley) Limited	Ordinary Shares	100	UK	Property investment
PatientFirst (Burnley) Limited	Ordinary Shares	100	UK	Property investment
PHP Bond Finance plc	Ordinary Shares	100	UK	Non-trading
PHP Investments No 1 Limited	Ordinary Shares	100	UK	Property investment
PHP Investments No 2 Limited	Ordinary Shares	100	UK	Property investment
Health Investments Limited	Ordinary Shares	100	UK	Property investment
Motorstep Limited	Ordinary Shares	100	UK	Property investment
PHP Investments (2011) Limited	Ordinary Shares	100	UK	Property investment
PHP AssetCo (2011) Limited	Ordinary Shares	100	UK	Property investment
PHP Healthcare Investments Limited	Ordinary Shares	100	UK	Property investment
PHP Glen Spean Limited	Ordinary Shares	100	UK	Property investment

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Subsidiary	Holding	Percentage of equity and voting rights held	Country of incorporation	Principal activity
PHP Medical Properties Limited	Ordinary Shares	100	UK	Non-trading
PHP Clinics Limited	Ordinary Shares	100	UK	Property investment
PHP (Project Finance) Limited	Ordinary Shares	100	UK	Property investment
PHP St. Johns Limited	Ordinary Shares	100	UK	Property investment
PHIP (Stourbridge) Limited	Ordinary Shares	100	UK	Property investment
PHIP (Gorse Stacks) Limited	Ordinary Shares	100	UK	Property investment
PHP (Darvel) Ltd	Ordinary Shares	100	UK	Property investment
PHP (Paisley) Ltd	Ordinary Shares	100	UK	Property investment
Gracemount Medical Centre Limited	Ordinary Shares	100	UK	Property investment

Save for the material subsidiaries disclosed in this paragraph 12 above the Company does not hold capital in any other undertakings that have a significant effect on the assessment of the Company's assets and liabilities, financial position or profits and losses.

### 13. EMPLOYEES

The Company has never employed any employees and no subsidiary for as long as it has been a member of the Group has had any employees.

### 14. KEYMAN INSURANCE

Nexus Central Management Services Limited maintains a keyman life insurance policy in respect of Harry Hyman.

### 15. PHP'S MATERIAL CONTRACTS

15.1 The following is a summary of each contract (not being a contract entered into in the ordinary course of business) that has been entered into by PHP or any member of the Group:

- (a) within the two years immediately preceding the date of this document which are, or may be, material to the Group; or
- (b) at any time and contains obligations or entitlements which are, or may be, material to the Group, as at the date of this document.

#### 15.2 Acquisition Agreement

The terms of the Acquisition Agreement are summarised in Part 2 of this document.

#### 15.3 Sponsor agreement

The Company entered into an agreement dated 15 November 2013 with Numis pursuant to which Numis agreed to act as sponsor and financial adviser to the Company in relation to the Acquisition, Admission and the publication of this document. The agreement contains customary warranties and indemnities given by the Company to Numis in connection with its role as the Company's sponsor and financial adviser. In addition Numis has the right to terminate the agreement in certain circumstances up to Admission.

#### 15.4 Advisory Agreement

Pursuant to an advisory agreement dated 14 March 1996 (as amended from time to time and last amended and restated on 28 February 2011) (the "Advisory Agreement") between the Company and the Joint Advisers (Nexus and JOHCM) the Company appointed:

- Nexus to provide property advisory and management services and the services of the Managing Director of the Company; and
  - JOHCM to provide administrative and accounting services and is the appointed company secretary.
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Each Joint Adviser has the continuing right to appoint and remove one person as a Director of the Company and receive a Director's fee (currently £25,000 per annum).

The annual fee payable to the Joint Advisers is calculated as a percentage of the gross asset value of the Group as follows:

Gross Assets	Total Fee
First £50 million	1.00 per cent.
Between £50 million and £500 million	0.75 per cent.
Between £500 million and £750 million	0.525 per cent.
Between £750 million and £1 billion	0.4375 per cent.

The Advisory Agreement contains a provision giving the Company the ability to pay Nexus and JOHCM a payment in lieu of notice in the event that the Company terminates the agreement. Such payment will be calculated by reference to the unexpired notice period and the gross asset value at the time of the termination and cannot be greater than the fees they are contractually entitled to receive. The provision of services under the Advisory Agreement is terminable by not less than two years' written notice.

Additional payments may be made to Nexus for non-standard real estate related services have been capped at 10 per cent. of the total annual fee payable to Nexus.

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

On 25 September 2013, the Company gave notice to JOHCM to terminate the provision of the existing company secretarial services and on the same date the advisory agreement was amended and restated so that Nexus will assume responsibility for providing services previously supplied by JOHCM, with effect from 30 April 2014 on the same terms as the advisory agreement save that:

- the Company will pay Nexus a fixed annual fee of £703,564 (£748,621 if the Acquisition completes) in relation to the company secretarial services for a period of two years from 1 May 2014 (or such earlier date as the parties may agree) (the "Effective Date") and an annual fee of £879,480 (£935,776 if the Acquisition completes) after that date;
- the company secretarial fee may be increased or decreased by up to 5 per cent. subject to movements in RPI (or such other appropriate independent index agreed by Nexus and the Company); and
- the finance and company secretarial services shall continue for a period of two years from the Effective Date and thereafter the notice period to terminate such services shall be 12 months given by Nexus or the Company.

#### 15.5 Deed of variation

Pursuant to a deed of variation dated 23 November 2006 (the "Deed") between the Company (1), Nexus (2) and JOHCM (3) the parties acknowledged that the management options granted to JOHCM and Nexus were exercised in full on 21 September 2006 and accordingly, that the management options agreement had expired. The Deed also provided that the Joint Advisers are entitled with effect from 23 November 2006 to a performance incentive fee equal to 15 per cent. of any performance in excess of an eight per cent. per annum increase in the Company's "Total Return" (such Total Return being derived from the audited accounts for the financial period ending on such date as shall be the accounting reference date of the Company in the year immediately preceding the proposed date of payment), provided that if the Total Return was less than eight per cent. in any one year the deficit must be made up in subsequent years before any subsequent performance incentive fee is paid.

On the basis of relevant audited accounts, the Total Return is determined by calculating the change in the net asset value per Ordinary Share, on a fully diluted basis, after adjustment for

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any increase or reduction in the issued share capital of the Company and adding back gross dividends paid per Ordinary Share. In addition, the Company pays a property management fee and a fee for the preparation of the tax provisions to Nexus, being the reimbursement for the services of its employees engaged directly in the Group's activities.

#### 15.6 Banking facilities

##### *Allied Irish Bank PLC Facility Agreement*

The Company and certain of its UK subsidiaries entered into a bilateral loan agreement with Allied Irish Banks, PLC ("AIB") dated 13 October 2004 as amended and restated from time to time and as most recently amended and restated on 2 April 2012 when the Company and each of the other borrowers resigned as borrowers and PHP Empire Holdings Limited acceded as the sole borrower and the facility was reduced from £30,000,000 to £27,000,000. The loan facility was repaid on 31 January 2013. The Company is a guarantor of the facility and has granted security over its shares in PHP Empire Holdings Limited in favour of AIB. The guarantee and security granted by the Company in favour of AIB remain in force as security for any close out amounts arising on termination the Swaps (as defined and more particularly described in paragraph 15.8 below) to which AIB remains a counterparty.

##### *Clydesdale Bank PLC Facility Agreement*

The Company and certain of its UK subsidiaries entered into a facility agreement with Clydesdale Bank PLC ("Clydesdale") dated 28 July 2011 under which Clydesdale granted PHP Investments (2011) Limited a secured term loan facility for a maximum principal amount of £50,000,000. The loan must be repaid in full on or before 31 July 2014 and any amount of the loan which is repaid before that date is available for redrawing. Interest is payable on the principal amount outstanding at a rate of LIBOR plus the lender's mandatory cost and a margin which varies according to the proportion which the aggregate of all loans outstanding bears to the aggregate market value of the properties which constitute the security for the loan, calculated in accordance with the most recent valuation. A commitment fee is payable on the unused portion of the facility. The facility agreement contains customary representations, covenants and events of default. The facility contains a number of financial covenants including that: (i) PHP Investments (2011) Limited must ensure that the actual interest cover percentage exceeds 130 per cent.; and (ii) from the date of utilisation the proportion which the aggregate of all loans outstanding bears to the aggregate market value of the properties does not exceed 70 per cent. The facility is secured by fixed and floating charges including legal mortgages over a designated pool of property assets. The Company is a guarantor of the facility. The loan was repaid and the facility agreement terminated on 18 October 2013.

##### *The Royal Bank of Scotland PLC and Abbey National Treasury Services PLC Facility Agreement*

The Company and certain of its UK subsidiaries entered into a facility agreement with The Royal Bank of Scotland PLC ("RBS") and Abbey National Treasury Services PLC ("Abbey") dated 16 March 2012 under which RBS and Abbey granted PHP Properties Limited a secured term loan facility for a maximum principal amount of £125,000,000 ("Facility A"), secured revolving credit facility for a maximum principal amount of £50,000,000 ("Facility B") and overdraft facility for a maximum principal amount of £5,000,000 ("Overdraft Facility"). The repayment date for Facility A is 16 March 2016. Each loan made under Facility B must be repaid on the last day of its interest period and any amounts repaid under Facility B are available for redrawing. The final repayment date for Facility B is 16 March 2016. Each loan made under the Overdraft Facility must be repaid on the last day of its interest period or otherwise on demand by the lender. Interest is payable on the principal amount outstanding under each facility at a rate of 2.50 per cent. per annum plus LIBOR and mandatory cost (if any). Certain fees and expenses, including a commitment fee, arrangement fee, agent's and security agent's fee and overdraft fee are also payable. The facilities are secured by fixed and floating charges granted by, among others, PHP Properties Limited and also the Company which

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is a guarantor of the facilities. Legal mortgages have also been granted over a designated pool of property assets. The facility agreement requires PHP Properties Limited to comply with financial covenants including: (i) a minimum net rental income to interest cover ratio of 140 per cent.; and (ii) a maximum loan to value ratio of 65 per cent. The Company undertakes that during the term of the loan the ratio of consolidated rental income to group interest paid is at least 130 per cent.

The facility agreement contains customary representations, covenants and events of default.

#### ***Barclays Bank Facility Agreement***

The Company and certain of its UK subsidiaries entered into a facility agreement with Barclays Bank PLC (“Barclays”) dated 25 March 2013 under which Barclays granted Primary Health Investment Properties (No.4) Limited a revolving credit facility for a maximum principal amount of £50,000,000. The repayment date is 25 March 2017. Interest is payable on the principal amount outstanding at a rate of 2.20 per cent. per annum plus LIBOR and mandatory cost (if any). A commitment fee is payable on the undrawn balance of the facility. Certain other fees and expenses, including an arrangement fee, management fee and cancellation fee are also payable. The facility agreement contains a number of financial covenants including: (i) that the loan shall not at any time exceed 60 per cent. of the market value of the property in accordance with the latest valuation; and (ii) the ratio of net rental income to financing costs must exceed 1.5x at all times. The facility agreement contains customary representations, covenants and events of default. The facility is secured by fixed and floating charges including legal mortgages over a designated pool of property assets. The Company is a guarantor of the facility and has entered into a full interest and capital guarantee in favour of Barclays. On 17 May 2013, the parties to the facility agreement agreed to increase the facility from £50,000,000 to £70,000,000 by way of a deed of amendment. All other terms of the facility remained materially the same.

### **15.7 Bond documents**

#### ***Retail Bonds***

On 23 July 2012 the Company issued £75,000,000 5.375 per cent. bonds due 23 July 2019 (the “Retail Bonds”). The Retail Bonds are constituted by a trust deed dated 23 July 2012 made between the Company and Prudential Trustee Company Limited (the “Trustee”). Interest on the Retail Bonds is payable semi-annually in arrears, commencing on 31 January 2013. The Retail Bonds are direct, unconditional, unsubordinated and unsecured obligations of the Company.

The Company may, at its option, redeem all, but not some only, of the Retail Bonds at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield of the relevant United Kingdom government stock, together with accrued interest, as described under “Conditions of the Bonds – 5.3 Redemption at the Option of the Issuer” in the offering circular dated 29 June 2012 (the “Offering Circular”). Additionally, the Company may, at its option, redeem all, but not some only, of the Retail Bonds at any time at par plus accrued interest, in the event of certain tax changes as described under “Conditions of the Bonds – 5.2 Redemption for Taxation Reasons”.

On the occurrence of a Change of Control Put Event (as defined in the Offering Circular), the holder of each Retail Bond will have the option (unless prior to the giving of the relevant Put Event Notice (as defined in the Offering Circular) the Company has given notice of redemption under Condition 5.2 or 5.3) to require the Company to redeem that Retail Bond on the Put Date (as defined in the Offering Circular) at its principal amount outstanding together with interest accrued to (but excluding) the Put Date.

An event of default, such as non-payment of any principal or interest due in respect of the Retail Bonds, would trigger the right of Retail Bond to request the Trustee to give notice to the Company for the repayment of the Retail Bonds and interest thereon.

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The net proceeds from the Retail Bonds were to be used for the general corporate purposes of the Company.

In connection with issue of the Retail Bonds, the Company entered into a subscription agreement dated 17 July 2012 with Mirabaud Securities LLP, acting where permitted through its registered representative Independent Debt Capital Markets LLP. Pursuant to the subscription agreement, Mirabaud Securities LLP agreed to procure subscribers for the Retail Bonds and the Company agreed to pay Mirabaud Securities LLP an arrangement and management fee and a total distribution fee. The Company also made certain representations and warranties regarding, amongst other things, the Company and the Offering Circular.

#### ***Secured bonds documents***

On 4 November 2013, PHP Bond Finance plc (“PHP Bond Finance”) issued £70,000,000 floating rate secured bonds due 2025 guaranteed by the Company (the “Secured Bonds”). The proceeds of the Secured Bonds are receivable in two tranches, with approximately £60 million paid on 4 November 2013 and the second tranche of approximately £10 million payable on 30 June 2014. The Secured Bonds are constituted by a trust deed dated 4 November 2013 made between PHP Bond Finance, the Company, certain subsidiaries of PHP Bond Finance (the “Original Charging Subsidiaries”) and U.S. Bank Trustees Limited (the “Trustee”). Interest on the Secured Bonds is payable semi-annually in arrears, commencing on 30 June 2014. The Secured Bonds are direct, secured obligations of PHP Bond Finance and the guarantee in respect of the Secured Bonds is a direct, unconditional and unsecured obligation of the Company.

The obligations of PHP Bond Finance, the Company and the Original Charging Subsidiaries in respect of the Secured Bonds and under the trust deed are secured by security granted by PHP Bond Finance, the Company and the Original Charging Subsidiaries, including legal mortgages over certain properties owned by the Original Charging Subsidiaries, fixed and floating charges over certain assets owned by PHP Bond Finance and the Original Charging Subsidiaries, assignments by PHP Bond Finance and the Original Charging Subsidiaries of their rights, title and interest in certain agreements and a fixed charge over the Company’s rights, title and interest in the share capital of PHP Bond Finance.

PHP Bond Finance may, at its option, redeem all, but not some only, of the Secured Bonds on any interest payment date on or after 30 June 2014 at a price which shall be the higher of their outstanding principal amount and an amount calculated by reference to the interpolated mid-swap rate in respect of the number of years to the maturity of the Secured Bonds. Additionally, PHP Bond Finance may, at its option, redeem all, but not some only, of the Secured Bonds on any interest payment date at par, in the event of certain tax changes as described under “Conditions of the Bonds – 11.2 Redemption for Taxation Reasons”.

On the occurrence of a change of control of the Company, the holder of each Secured Bond will have the option to require PHP Bond Finance to redeem that Secured Bond at its outstanding principal amount together with interest accrued thereon.

An event of default, such as non-payment of any principal or interest due in respect of the Secured Bonds or the breach of certain asset cover covenants and income cover covenants set out in the Bond Prospectus, would trigger the right of bondholders to request the Trustee to give notice to PHP Bond Finance for the repayment of the Secured Bonds and interest thereon.

The net proceeds from the Secured Bonds are to be advanced by PHP Bond Finance to the Original Charging Subsidiaries to be applied for their general corporate purposes and/or to repay existing indebtedness.

In connection with issue of the Secured Bonds, PHP Bond Finance, the Company and the Original Charging Subsidiaries entered into a purchase agreement dated 4 November 2013 with Mirabaud Securities LLP, acting where permitted through its appointed representative Independent Debt Capital Markets LLP. Pursuant to the purchase agreement, Mirabaud

Securities LLP agreed to procure subscribers for the Secured Bonds and PHP Bond Finance and the Company agreed to pay Mirabaud Securities LLP a combined selling and management fee. PHP Bond Finance, the Company and the Original Charging Subsidiaries also made certain representations and warranties regarding, amongst other things, PHP Bond Finance, the Company, the Original Charging Subsidiaries and the Bond Prospectus.

## 15.8 Interest rate swaps

Specific subsidiaries of the Company have entered into interest rate swaps (“Swaps”) in respect of senior debt facilities held by them and secured upon assets owned by those respective subsidiaries. Below are details of the Swaps:

Counterparty	Contracted Rate	Start Date	Maturity Date	Current Notional Value £000s
Royal Bank of Scotland PLC	4.805%	02-Jan-07	02-Jul-16	70,000
	4.760%	24-Jul-17	24-Jul-27	20,000
	4.740% <sup>(1)</sup>	20-Sep-07	11-Aug-21	38,000
	4.835% <sup>(1)</sup>	04-Sep-07	11-Aug-21	50,000
Allied Irish Bank PLC	4.530%	31-Aug-05	28-Aug-15	10,000
	4.810%	08-Jun-06	08-Jun-26	10,000
	4.510%	07-Jun-16	08-Jun-26	10,000
	4.400%	01-Jul-16	01-Jul-26	10,000
	4.475%	04-Jul-16	02-Jul-26	10,000
	4.47875%	04-Jul-16	02-Jul-26	20,000
	4.455%	04-Jul-16	02-Jul-26	10,000
Barclays Bank PLC	0.9%	25-Mar-13	25-Mar-17	28,000

(1) These contracts are cancellable at the option of the counterparty on 11 February 2016 and each date quarterly thereafter until their termination date.

All Swaps are with reference to three month GBP-LIBOR-BBA and are settled on a quarterly basis.

## 15.9 Agreements in relation to issues of ordinary share issues

### (a) *May 2012 Placing*

Pursuant to the terms of a placing agreement dated 18 May 2012 in connection with a placing by the Company of 6,229,509 new Ordinary Shares, the Company gave Numis and Peel Hunt certain standard warranties and indemnities.

### (b) *June 2013 Capital Raising*

#### *Placing agreement*

The Company has entered into a placing agreement dated 22 May 2013 with Numis and Peel Hunt LLP. Under the terms of the Placing Agreement, Numis and Peel Hunt LLP were appointed as the Company’s agents in relation to the June 2013 Capital Raising and joint underwriters in relation to the Firm Placing and Numis was appointed as the Company’s Sponsor in relation to the June 2013 Capital Raising.

The Company agreed to pay a corporate finance success fee and commission based on the proceeds raised by the Company from subscribing investors to Numis and Peel Hunt LLP and to reimburse Numis’ and Peel Hunt LLP’s reasonable costs, charges and expenses. The Company gave certain customary warranties, indemnities and undertakings to Numis and Peel Hunt LLP.

#### *Subscription and Transfer Agreements*

In connection with the June 2013 Capital Raising, the Company, PHP Ottoman (Jersey) Limited, Numis and Peel Hunt LLP, among others, entered into agreements (the



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“Subscription and Transfer Agreements”) each dated 22 May 2013 in respect of the subscription and transfer of ordinary shares and redeemable preference shares in PHP Ottoman (Jersey) Limited. The Subscription and Transfer Agreements were entered into to give effect to the structure of the June 2013 Capital Raising.

*Receiving Agent Agreement*

Pursuant to a receiving agent agreement dated 22 May 2013 (the “Receiving Agent Agreement”) between the Company and the Equiniti Limited (the “Receiving Agent”), the Receiving Agent agreed to provide receiving agent services to the Company in relation to June 2012 Capital Raising. Under the Receiving Agent Agreement, the Company gave some customary indemnities to the Receiving Agent. The Receiving Agent was entitled to receive various fees depending on the services provided.

**15.10 Sale and purchase agreement in relation to AMP**

An agreement for the sale and purchase of shares in AMP (the “AMP Acquisition Agreement”) was entered into on 13 December 2012 by the Company, Primary Health Investment Properties (No. 4) Limited and Clive Eminson, John Dryburgh, Michael John Parker and Richard Drew (together the “Sellers”). Primary Health Investment Properties (No. 4) Limited is wholly owned by the Company.

Under the AMP Acquisition Agreement, the Sellers agreed to sell and Primary Health Investment Properties (No. 4) Limited agreed to purchase the entire issued share capital of AMP. The consideration payable was approximately £10.2 million. The consideration was to be settled by the payment of £4.2 million in cash on completion, £1.8 million in cash deferred until the delivery of assets under construction and by the issue of 1,231,395 Ordinary Shares to certain Sellers on completion.

The Company agreed to guarantee certain payment and performance obligations of Primary Health Investment Properties (No. 4) Limited.

The Sellers have given certain warranties, including in relation to their capacity and title to the AMP shares, the properties owned by AMP and the tax and financial affairs of AMP. There are monetary and time limitations on the warranties and the warranties are qualified by the disclosures given in a disclosure letter. Primary Health Investment Properties (No. 4) Limited has provided covenants as to its capacity to enter into the AMP Acquisition Agreement.

**15.11 Sale and purchase agreement in relation to PHCC**

An agreement for the sale and purchase of shares in Primary Health Care Centres Limited (the “PHCC Acquisition Agreement”) was entered into on 1 July 2013 by the Company and Jeffrey Green, Jacqueline Green, Barry Green and Bradley Lutton (together, the “PHCC Sellers”).

Under the PHCC Acquisition Agreement, the PHCC Sellers agreed to sell and the Company agreed to purchase the entire issued share capital of PHCC. The consideration payable was not to exceed £10,842,730 million. The consideration was to be settled by the payment of £10,042,149 in cash on completion and £200,000 in cash deferred until the settling of the completion balance sheet. Additional consideration was itemised in the PHCC Acquisition Agreement and payable up to the agreed maximum consideration in the months following completion.

The PHCC Sellers have given certain warranties, including in relation to their capacity and title to the PHCC shares, the properties owned by PHCC and the tax and financial affairs of PHCC. There are monetary and time limitations on the warranties and the warranties are qualified by the disclosures given in a disclosure letter. The Company has provided covenants as to its capacity to enter into the PHCC Acquisition Agreement.

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## **16. PPP GROUP'S MATERIAL CONTRACTS**

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) that has been entered into by PPP or any member of the PPP Group:

- (a) within the two years immediately preceding the date of this document which are, or may be, material to the PPP Group; or
- (b) at any time and contains obligations or entitlements which are, or may be, material to the PPP Group, as at the date of this document.

### **16.1 Subscription letter**

A letter of direction and subscription for shares (the "Letter") was entered into on 30 January 2013 by Prime (GB) Holdings Limited ("Prime GB") and SC1234 Limited, now PPP Holdings. Under the letter, the shareholders of Prime GB, being Mr Leighton Chumbley, Mr Julian Kavanagh, Mr Julian Keyte, Mr Richard Laing, Mr Robert Moore, Dr Ann Pursey, Mr Peterjohn Sargent and Mr Richard Williams (together the "Prime GB Shareholders"), directed Prime GB to transfer 1,501,000 ordinary shares of £1.00 each in the capital of PPP to PPP Holdings in satisfaction of a capital amount owed to the Prime GB Shareholders by Prime GB, pursuant to a reduction of capital undertaken by Prime GB. In consideration for the transfer of the shares in PPP by Prime GB to PPP Holdings, the shareholders applied for that number of ordinary shares of £1.00 each in the share capital of PPP as per the following: Mr Leighton Chumbley (6,982,040) Mr Julian Kavanagh (1,047,158), Mr Julian Keyte (872,829), Mr Richard Laing (11,170,673), Mr Robert Moore (277,154), Dr Ann Pursey (706,182), Mr Peterjohn Sargent (6,982,040) and Mr Richard Williams (6,982,040).

### **16.2 Shareholders' Agreement**

A shareholders' agreement (the "Shareholders' Agreement") was entered into on 31 January 2013 by Leighton Daniel Chumbley, Richard Handley l'Anson Laing, Peterjohn Alfred Sargent and Richard Gareth Emery Williams and SC1234 Limited, now PPP Holdings. The Shareholders' Agreement governs, the manner in which PPP Holdings will be managed and sets out the terms of their relationship as shareholders of PPP Holdings. The Shareholders' Agreement states that if any three of the four shareholders vote in favour of any shareholder resolution of PPP Holdings, the fourth shareholder shall also vote in favour of such resolution if required to do so. The Shareholders' Agreement states that it shall continue in force until the earlier of, the date all of the shares in PPP Holdings are held by or on behalf of one person, and the date of admission of the entire issued share capital of PPP Holdings to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's main market, at which point the Shareholders' Agreement shall terminate. Pursuant to the Acquisition Agreement, the Shareholders' Agreement will terminate at Completion.

### **16.3 Property Management Agreement and amendment**

A property management agreement was entered into on 31 January 2013 by PPP and Prime PLC (the "Property Management Agreement"). Under the Property Management Agreement, PPP appointed Prime PLC as manager of the properties listed in schedule 1 to the Property Management Agreement.

Under the Property Management Agreement, it was agreed that Prime PLC's objectives were to advise PPP in relation to the compliance of PPP's obligations under the leases of the properties, to ensure the maintenance of good relationships with occupiers of the properties and to maximise rental income and capital value.

The term of the Property Management Agreement was for a period of ten years from and including 31 January 2013.

Under the Property Management Agreement, PPP agreed to pay Prime PLC a management fee equal to 4 per cent. of the aggregate annual lease payments payable pursuant to the leases of



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the properties as listed in schedule 1 to the Property Management Agreement. It was agreed that the management fee would exclude (and PPP would pay and indemnify Prime PLC against), payments to contractors and others for carrying out work to the properties, fees of solicitors, surveyors and other professionals, general disbursements and any fees of arbitrators, experts or other irrecoverable costs involved in enforcing sums due to PPP, rent reviews, other disputes and fees of other professional persons.

Prime PLC agreed to ensure that it had professional indemnity insurance in the sum of not less than two million pounds (in respect of each and every claim) in place during the subsistence of the Property Management Agreement.

It was agreed that if there was a material breach by Prime PLC of its obligations which it failed to remedy, PPP could terminate the Property Management Agreement and on such termination PPP would pay all outstanding management fees to Prime PLC.

On completion of the Acquisition Agreement, the Property Management Agreement will be terminated and a new property management agreement will be entered into by PPP and Prime PLC (the "New PMA"). The New PMA is on the same terms as the Property Management Agreement dated 31 January 2013, save for the termination clause which will be amended so that PPP can terminate the New PMA at any time up to and including 31 December 2014. Such termination will be given on completion of the Acquisition Agreement and will take effect by PPP giving Prime PLC two months' written notice. It is agreed that on the expiry of such notice, PPP will release Prime PLC from all obligations under the New PMA.

## **17. LEGAL AND ARBITRATION PROCEEDINGS**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 month period prior to the publication of this document, a significant effect on the Company's and/or the Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 month period prior to the publication of this document, a significant effect on the PPP Group's financial position or profitability.

## **18. DIVIDENDS**

The following table sets out the dividend per Ordinary Share paid in respect of each of the financial periods ended 31 December 2010, 31 December 2011 and 31 December 2012:

<b>Period ended</b>	<b>Dividend per Ordinary Share in pence reported</b>
12 months to 31 December 2012	18.50p
12 months to 31 December 2011	18.00p
12 months to 31 December 2010	17.50p

A second interim cash dividend of 9.50p for the year ended 31 December 2012 was paid to shareholders on 22 April 2013.

A first interim dividend for the year ended 31 December 2013 of 9.50p was paid to shareholders on 1 November 2013.

There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

## **19. WORKING CAPITAL**

In the opinion of PHP, after taking into account existing bank facilities available to the Group, the working capital available to the Group is sufficient for its present requirements, that is, for at least the 12 months following the date of this document.

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In the opinion of PHP, after taking into account existing bank facilities available to the Enlarged Group, the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this document.

## **20. NO SIGNIFICANT CHANGE**

There has been no significant change in the financial or trading position of the Group since 30 June 2013, being the date to which the latest interim results and unaudited financial statements of the Group was prepared.

There has been no significant change in the financial or trading position of the PPP Group since 31 December 2012, being the date to which the historical financial information of PPP set out in Part 8 of this document was prepared.

There has been no material change to the PHP Property Valuation Report set out in section A of Part 10 of this document since 30 June 2013, being the date the PHP Property Valuation Report was prepared.

There has been no material change to the PPP Portfolio Group Property Valuation Report set out in section B of Part 10 of this document since 31 October 2013, being the date the PPP Portfolio Property Valuation Report was prepared.

## **21. RELATED PARTY TRANSACTIONS**

Save as disclosed in the financial information incorporated by reference into this document (see note 31 to the financial statements for the year ended 31 December 2010, note 30 to the financial statements for the year ended 31 December 2011 and note 30 to the financial statements for the year ended 31 December 2012) there are no related party transactions between PHP and other members of the Group that were entered into during the aforementioned periods.

During the period between 1 January 2010 and 14 November 2013 (being the latest practicable date prior to the publication of this document) the Company paid £14.9 million pursuant to the Advisory Agreement.

On 26 September 2013, the Board announced that it has agreed revised arrangements in respect of the provision of administrative and accounting services. Under the revised agreement Nexus will assume responsibility for providing services previously supplied by JOHCM, with effect from 30 April 2014.

## **22. STATUTORY AUDITORS AND CONSENTS**

22.1 The auditors of the Issuer are Deloitte LLP, whose address is 2 New Street Square, London EC4A 3BZ, and which is a member of the Institute of Chartered Accountants in England and Wales

Following a competitive tender process in accordance with best corporate governance practice, the PHP Board appointed Deloitte LLP as auditors of the Group with effect from 17 June 2013. The appointment was made to fill a “casual vacancy” in accordance with the Companies Act and is subject to shareholder approval at the 2014 annual general meeting of the Company. Ernst & Young LLP has provided the Company with a “statement of circumstances” confirming that it resigned as auditor of the Company with effect from 17 June 2013 following its unsuccessful tender and for no other reason.

Ernst & Young LLP, whose address is 1 More London Place, London SE1 2AF, and which is a member of the Institute of Chartered Accountants in England and Wales has audited and reported on the annual accounts of PHP for the financial years ended 31 December 2010, 2011 and 2012. Statutory accounts of PHP for each of the years ended 31 December 2010, 2011 and 2012 have been delivered to the Registrar of Companies. The auditors of PHP have made reports under the relevant provisions in English company law in respect of these statutory accounts and each report was an unqualified report.

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- 22.2 PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion of its reports on the historical financial information of PPP in Part 8 of this document and the unaudited pro forma statement of net assets in Part 9 of this document in the form and context in which they appear and has authorised the contents of those reports for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.
- 22.3 Lambert Smith Hampton Limited has given and not withdrawn its written consent to the inclusion in this document of its report in Part 10 of this document and the references to its name in the form and context in which they appear and has authorised the contents of these parts of the document which comprise its reports for the purposes of Rule 5.5.3(R(2)(f) of the Prospectus Rules.
- 22.4 Numis Securities Limited and Peel Hunt LLP has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

### **23. GENERAL**

- 23.1 The total costs and expenses of, and incidental to, the Acquisition are estimated to be £1.39 million and are payable by PHP.
- 23.2 The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be paid up in cash) apply to the balance of the authorised but unissued share capital of the Company which is not the subject of a disapplication approved by the Shareholders in a General Meeting.
- 23.3 The Ordinary Shares are in registered form, are capable of being held in uncertificated form and are admitted to the Official List and are traded on the main market for listed securities of the London Stock Exchange.
- 23.4 The Consideration Shares will be in registered form and, from the respective Admission of the Consideration Shares, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where Consideration Shares are held in certificated form, share certificates will be sent to the registered members by first-class post. Where Consideration Shares are held in CREST, the relevant CREST stock account of the registered members will be credited. The Consideration Shares will be admitted with the ISIN GB007015521, being the same ISIN under which the Existing Ordinary Shares are admitted.
- 23.5 The Consideration Shares will be deemed to be issued at 320 pence per share. This represents a premium of 270 pence per Ordinary Share to the nominal value of 50 pence per Ordinary Share.
- 23.6 The financial information contained in this document, unless otherwise stated, has been extracted from the Annual Reports and Accounts for the years ended 31 December 2010, 2011 and 2012.
- 23.7 Where information has been sourced from a third party, the Company confirms that the information has been accurately reproduced and, as far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used, the source of such information has been identified wherever it appears in this document.

### **24. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of PHP, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB during normal business hours on any Business Day from the date of this document until close of business on 3 December 2013 and will also

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be available for inspection at the General Meeting for at least 15 minutes before and during the meeting:

- (a) the Acquisition Agreement;
- (b) the Articles;
- (c) the Annual Reports and audited consolidated accounts of the Group for the financial years ended 31 December 2010, 31 December 2011 and 31 December 2012;
- (d) the interim reports and unaudited financial statements of the Group for six month periods ended 30 June 2012 and 30 June 2013;
- (e) the consent letters referred to in paragraph 22 of this Part 11;
- (f) the Property Valuation Reports contained in Part 10 of this document;
- (g) this document; and
- (h) all documents incorporated by reference into this document.

## **25. ANNOUNCEMENT OF COMPLETION**

The Company will make (an) appropriate announcement(s) to a Regulatory Information Service giving details of the completion of the Acquisition on or about 3 December 2013.

Dated: 15 November 2013

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## PART 12

### DOCUMENTATION INCORPORATED BY REFERENCE

The following documentation, which was sent to Shareholders at the relevant time and/or is available as described below, contains information which is relevant to this document.

- The Annual Report and Accounts of PHP for each of the financial years ended 31 December 2010, 2011 and 2012. The Annual Reports contain the audited consolidated financial statements of the Company for the financial years ended 31 December 2010, 2011 and 2012 prepared in accordance with IFRS, together with audit reports in respect of each such period.
- The interim reports and unaudited financial statements, prepared in accordance with IFRS, of the Group for six month periods ended 30 June 2012 and 30 June 2013.

These documents are also available on the Company's website at [www.PHPgroup.co.uk](http://www.PHPgroup.co.uk).

The table below sets out the various sections of such documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of PHP and of the Ordinary Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of PHP.

Section	For the year ended 31 December 2010 – Page No(s) in such documents	For the year ended 31 December 2011 – Page No(s) in such documents	For the six month period ended 30 June 2012 – Page No(s) in such documents	For the year ended 31 December 2012 – Page No(s) in such documents	For the six month period ended 30 June 2013 – Page No(s) in such documents
Chairman's Statement	–	2	2	2	2
Managing Director's report	–	4	6	4	6
Director's Report	23	14	–	26	–
Independent Auditors' Report	37	35	–	37	–
Group Income Statement	39	36	17	38	17
Group Balance Sheet	40	37	18	39	18
Group Cashflow Statement	42	38	20	40	20
Notes to the financial statements	44	40	24	42	24

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## PART 13

### DEFINITIONS

In this document the following expressions have the meaning ascribed to them unless the context otherwise requires:

<b>Acquisition</b>	the proposed acquisition by the Company of the entire issued share capital of PPP Holdings
<b>Acquisition Agreement</b>	the agreement dated 14 November 2013 between the Company, as purchaser, and the Sellers for the proposed acquisition of the entire issued share capital of PPP Holdings
<b>Admission</b>	one or more admissions of the Consideration Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares to trading on the premium listing segment of the London Stock Exchange's main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards
<b>Admission and Disclosure Standards</b>	the "Admission and Disclosure Standards" of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
<b>Advisory Agreement</b>	the advisory agreement described at paragraph 15.4 of Part 11 of this document
<b>AIB</b>	Allied Irish Banks PLC
<b>AIM</b>	the AIM market of the London Stock Exchange
<b>AMP</b>	PHP Medical Properties Limited (formerly Apollo Medical Partners Limited), a company incorporated in England and Wales with company number 04246742, whose registered address is at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB
<b>Articles</b>	the articles of association of the Company, details of which are set out in paragraph 4 of Part 11 of this document
<b>Aviva</b>	Aviva Public Private Finance Limited
<b>Board</b>	the Directors of PHP
<b>Business Day</b>	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in the City of London for the transaction of normal banking business
<b>certificated or in certificated form</b>	in relation to a share or other security, a share or other security which is not in uncertificated form
<b>Companies Act</b>	the Companies Act 2006 as amended
<b>Completion</b>	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
<b>Consideration Shares</b>	the new Ordinary Shares to be issued to the Sellers under the terms of the Acquisition Agreement

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<b>Corporate Governance Code</b>	the UK Corporate Governance Code published in June 2010 by the Financial Reporting Council
<b>Costs Directions</b>	the National Health Service (General Medical Services Premises Costs) Directions 2004 (the “2004 Cost Directions”) and the National Health Service (General Medical Services Premises Costs) Directions 2013 (the “2013 Costs Directions”)
<b>CREST</b>	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is the operator as defined in the CREST Regulations)
<b>CREST Manual</b>	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)
<b>CREST Regulations or Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
<b>Daily Official List</b>	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange
<b>Directors</b>	the executive director and non-executive directors of the Company, whose names appear on page 27 of this document
<b>Disclosure and Transparency Rules</b>	the rules relating to the disclosure of information made in accordance with section 73A(3) of the FSMA
<b>Enlarged Group</b>	the Group including, following Completion, the PPP Group
<b>EPRA</b>	the European Public Real Estate Association
<b>EPRA net assets</b>	balance sheet net assets including the revaluation result on trading properties excluding fair value adjustments for debt and related derivatives
<b>EPS</b>	earnings per share
<b>Equiniti</b>	Equiniti Limited
<b>ESMA</b>	European Securities and Markets Authority
<b>EU or European Union</b>	the European Union
<b>Euroclear</b>	Euroclear & Ireland Limited, the operator of CREST
<b>Existing Ordinary Shares</b>	the Ordinary Shares in issue as at the date of this document
<b>Financial Conduct Authority or FCA</b>	the Financial Conduct Authority of the United Kingdom
<b>Form of Proxy or Proxy Form</b>	the form of proxy for use at the General Meeting
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended
<b>Further Consideration Shares</b>	up to 748,853 Consideration Shares to be issued to the Sellers under the terms of the Acquisition Agreement
<b>General Meeting</b>	the general meeting of PHP to be held at 10.00 a.m. on 2 December 2013, notice of which is set out in Part 14 of this document

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<b>GDP</b>	gross domestic product
<b>GP</b>	General Practitioner
<b>HSC Act</b>	Health and Social Care Act 2012
<b>HMRC</b>	HM Revenue & Customs
<b>IFRS</b>	International Financial Reporting Standards as issued by the International Accounting Standards Board and, for the purposes of this document, as adopted by the European Union
<b>Initial Consideration Shares</b>	12,577,771 Consideration Shares to be issued to the Sellers at Completion under the terms of the Acquisition Agreement
<b>IPD</b>	Investment Property Database Ltd, a company that produces an independent benchmark of property returns
<b>ISIN</b>	International Securities Identification Number
<b>JOHCM</b>	J O Hambro Capital Management Limited of Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB (a wholly-owned subsidiary of J O Hambro Capital Management Group Limited)
<b>Joint Advisers</b>	Nexus and JOHCM
<b>June 2013 Capital Raising</b>	the issue of 21,746,032 Ordinary Shares in June 2013 pursuant to placing, open offer and offer for subscription
<b>LIBOR</b>	London inter-bank offered rate
<b>Listing Rules</b>	the Listing Rules made by the FCA under Part VI of FSMA
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>LTV</b>	loan-to-value
<b>Member State</b>	a sovereign state which is a member of the European Union
<b>Memorandum of Association</b>	the memorandum of association of the Company
<b>Nexus</b>	Nexus Tradeco Limited of 5th Floor Greener House, 66-68 Haymarket, London SW1Y 4RF
<b>NHS</b>	the National Health Service
<b>NHS LIFT</b>	NHS Local Improvement Finance Trust
<b>NHS PS</b>	NHS Property Services Limited
<b>Non-PID Dividend</b>	any dividend of the Company other than a PID received by a Shareholder of the Company
<b>Notice of General Meeting</b>	the notice of the General Meeting contained in Part 14 of this document
<b>Numis</b>	Numis Securities Limited
<b>Official List</b>	the Official List of the Financial Conduct Authority pursuant to Part VI of FSMA
<b>Ordinary Shares or Shares</b>	ordinary shares of 50 pence each in the share capital of the Company
<b>Overseas Shareholders</b>	Shareholders with registered addresses outside the United Kingdom or who are citizens or residents of countries outside the United Kingdom
<b>PCT</b>	Primary Care Trust

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<b>Peel Hunt</b>	Peel Hunt LLP
<b>Permitted Transferees</b>	has the definition given under the HSC Act
<b>PHP or the Company</b>	Primary Health Properties PLC, a public limited company incorporated in England and Wales with registered number 03033634
<b>PHP Group or Group</b>	the Company and each of its subsidiaries and subsidiary undertakings at the date of this document
<b>PHP Share Scheme</b>	the Primary Health Properties Share Scheme operated by Equiniti
<b>PID</b>	property income distribution
<b>Pounds Sterling or £</b>	the lawful currency of the United Kingdom
<b>PPP</b>	Prime Public Partnerships Limited, the wholly owned subsidiary of PPP Holdings
<b>PPP Group</b>	PPP and PPP Holdings
<b>PPP Holdings</b>	Prime Public Partnerships (Holdings) Limited
<b>PPP Portfolio</b>	the 54 real estate properties owned by the PPP Group
<b>Prime Group</b>	the group of companies headed by Prime (UK) Holdings PLC, whose principal activity is the planning, design, development and ownership of buildings and healthcare businesses
<b>Property Valuation Reports</b>	the property valuation reports prepared by the Property Valuer and set out in Part 10 of this document
<b>Property Valuer</b>	Lambert Smith Hampton Limited, chartered surveyors and valuers, of Interchange Place, Edmund Street, Birmingham B3 2TA. Lambert Smith Hampton Limited is the trading name of Lambert Smith Hampton Group Limited
<b>Prospectus</b>	this document comprising a combined prospectus and notice of general meeting
<b>Prospectus Rules</b>	the Prospectus Rules published by the FCA under Section 73A of FSMA
<b>RBS</b>	the Royal Bank of Scotland PLC
<b>Registrar of Companies</b>	the Registrar of Companies in England and Wales
<b>Registrars</b>	Equiniti Limited
<b>Regulatory Information Service</b>	one of the regulatory information services authorised by the Financial Conduct Authority to receive, process and disseminate regulatory information in respect of listed companies
<b>REIT</b>	Real Estate Investment Trust
<b>Resolutions</b>	the resolutions to be proposed at the General Meeting set out in the Notice of General Meeting
<b>Retail Bonds</b>	the 5.375 per cent. bonds due 23 July 2019 issued by the Company
<b>RPI</b>	retail price index
<b>SDRT</b>	stamp duty reserve tax
<b>Secured Bonds</b>	the floating rate secured bonds due 2025 issued by the Company
<b>Sellers</b>	the holders of the entire issued share capital of PPP Holdings

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<b>Shareholder</b>	a holder of Ordinary Shares from time to time
<b>SID</b>	Senior Independent Director
<b>stock account</b>	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited
<b>Substantial Shareholding</b>	the shares in the Company in relation to which a person has an interest (whether beneficial, legal, direct or indirect) which may cause a member of the Group to be liable to tax under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006
<b>Takeover Code</b>	the City Code on Takeovers and Mergers
<b>UK-REIT</b>	a real estate investment trust established in the United Kingdom
<b>uncertificated or in uncertificated form</b>	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
<b>United Kingdom or UK</b>	the United Kingdom of Great Britain and Northern Ireland
<b>US Securities Act</b>	the United States Securities Act 1933, as amended
<b>United States</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
<b>VAT</b>	value added tax
<b>WAULT</b>	weighted average unexpired lease term.

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## PART 14

### NOTICE OF GENERAL MEETING

## Primary Health Properties PLC

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 03033634)*

**NOTICE IS HEREBY GIVEN** that a General Meeting of Primary Health Properties PLC (the “**Company**”) will be held on 2 December 2013 at 10.00 a.m. at Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the purpose of considering, and if thought fit, passing the following Resolutions.

### ORDINARY RESOLUTIONS

1. THAT, subject to Resolutions 2 and 3 below being passed the proposed acquisition by the Company of the entire issued share capital of Prime Public Partnerships (Holdings) Limited (the “**Acquisition**”) on the terms and subject to the conditions contained in the Acquisition Agreement (as defined in the prospectus and circular to shareholders of the Company together with the notice of general meeting (the “**Prospectus**”), a copy of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) together with the associated and/or ancillary agreements contemplated by the Acquisition Agreement and/or described in the Prospectus, be and is hereby approved and the directors of the Company (the “**Directors**”) (or any duly constituted committee thereof) be and hereby are authorised to: (i) take all such steps as the Directors consider to be necessary or desirable in connection with, and to implement, the Acquisition; and (ii) agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Acquisition and/or the Acquisition Agreement together with the associated and/or ancillary agreements contemplated by the Acquisition Agreement and/or described in the Prospectus (provided such modifications, variations, revisions, waivers or amendments are not a material change to the terms of the Acquisition), and to any documents and arrangements relating thereto as they may in their absolute discretion think fit.
2. THAT, subject to the passing of Resolution 1, the Directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “**2006 Act**”) in substitution for all existing authorities:
  - 2.1 to exercise all the powers of the Company to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together “**Relevant Securities**”) up to an aggregate nominal amount of £18,537,180); and
  - 2.2 to exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the 2006 Act) up to an additional aggregate nominal amount of £18,537,180) provided that this authority may only be used in connection with a rights issue in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever,

provided that the authorities in 2.1 and 2.2 shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or if earlier on the date which is

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15 months after the date on which this resolution is passed, except that the Company may before such expiry make an offer or agreement which would or might require Relevant Securities or equity securities as the case may be to be allotted after such expiry and the directors may allot Relevant Securities or equity securities in pursuance of any such offer or agreement as if the authority in question had not expired.

### **SPECIAL RESOLUTIONS**

3. THAT, subject to the passing of Resolutions 1 and 2, the Directors be and are empowered, in accordance with sections 570 and 573 of the 2006 Act, to allot equity securities (as defined in section 560(1) of the 2006 Act) for cash pursuant to the authority conferred by Resolution 2 or by way of a sale of treasury shares as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to:

- 3.1 the allotment of equity securities in connection with a rights issue or other *pro rata* offer (but, in the case of the authority conferred by paragraph 2.2, by way of a rights issue only) in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and
- 3.2 the allotment (otherwise than pursuant to paragraph 3.1 above) of equity securities up to an aggregate nominal amount of £2,780,577),

and shall expire upon the expiry of the general authority conferred by Resolution 2 above, except that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted and/or shares held by the Company in treasury to be sold or transferred after such expiry and the directors may allot equity securities and/or sell or transfer shares held by the Company in treasury in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

4. THAT, subject to the passing of Resolutions 1, 2 and 3, the Company be and is hereby generally and unconditionally authorised, in accordance with section 701 of the 2006 Act, to make market purchases (within the meaning of section 693(4) of the 2006 Act) of ordinary shares of 50 pence each in the capital of the Company on such terms and in such manner as the directors may from time to time determine provided that:
- (a) the maximum number of ordinary shares authorised to be purchased is 11,122,308;
- (b) the minimum price which may be paid for an ordinary share is 50 pence (exclusive of expenses payable by the Company);
- (c) the maximum price which may be paid for an ordinary share (exclusive of expenses payable by the Company) cannot be more than the higher of:
- (d) 105 per cent. of the average market value of an ordinary share for the five business days prior to the day on which the ordinary share is contracted to be purchased; and
- (e) the value of an ordinary share calculated on the basis of the higher of:
- (i) the last independent trade of; or
- (ii) the highest current independent bid for any number of ordinary shares on the trading venue where the market purchase by the Company will be carried out,

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and the authority conferred by this Resolution shall expire at the conclusion of the next annual general meeting of the Company except that the Company may before such expiry make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

**J O Hambro Capital Management Limited**  
*Company Secretary*

Dated: 15 November 2013

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

**Notes:**

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you). Please indicate if the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and should be returned together in the same envelope.
2. A proxy form is provided with this notice and instructions for use are shown on the Proxy form. In order to be valid, a completed proxy form must be returned to the Company by one of the following methods:
  - in hard copy form by post, by courier or by hand to the Company's Registrar, Equiniti at the address shown on the proxy form to be received not less than 48 hours before the time fixed for the General Meeting or any adjournment(s) thereof (excluding any part of any day that is not a working day); or
  - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, and in each case must be received by Equiniti not less than 48 hours before the time fixed for the General Meeting. Please note that any electronic communication sent to Equiniti in respect of the appointment of a proxy that is found to contain computer virus will not be accepted.

As an alternative to completing the hard-copy proxy form, you can appoint a proxy electronically by logging onto the website [www.sharevote.co.uk](http://www.sharevote.co.uk) and entering your Voting ID, Task ID and Shareholder Reference Number shown on your form of proxy. For an electronic proxy appointment to be valid, your appointment must be received by Equiniti no later than 10.00 a.m. on 30 November 2013
3. To change your proxy instructions you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others.
4. The return of a completed proxy form will not prevent a shareholder attending the General Meeting and voting in person if he/she wishes to do so.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual.
6. In order for a proxy appointment or instruction made using a CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti agent ID RA19 no later than 48 hours before the meeting for receipt of proxy appointment specified in the Notice of General Meeting.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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8. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal systems timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
  9. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act ("Nominated Persons"). The right to appoint proxies does not apply to Nominated Persons: they can only be exercised by the member. However, in accordance with section 149(2) of the Companies Act, a Nominated Person may have a right under an agreement with the registered member who has nominated him to be appointed, or to have someone else appointed, as a proxy for this meeting. If a Nominated Person does not have such right, or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated Persons should contact the registered member by whom they were nominated in respect of these arrangements.
  10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
  11. You may not use any electronic address provided either in this Notice of General Meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
  12. To be entitled to attend and vote at the General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 29 November 2013 or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the time of the adjourned meeting (excluding any part of any day that is not a working day). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
  13. Any member attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
    - to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    - the answer has already been given on a website in the form of an answer to a question; or
    - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
  14. A copy of this notice, and other information required by section 311A of the Companies Act, can be found at [www.PHPgroup.co.uk](http://www.PHPgroup.co.uk).
  15. As at 14 November 2013 the Company's issued share capital consisted of 97,896,459 Ordinary Shares carrying one vote each and therefore the total number of voting rights is 97,896,459.
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