

Registered number: 05417914

PHP PRIMARY PROPERTIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



PHP PRIMARY PROPERTIES LIMITED

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PHP PRIMARY PROPERTIES LIMITED

COMPANY INFORMATION

| | |
|------------------|--|
| Directors | H A Hyman R Howell D C Austin C Santer (appointed 18 August 2020) |
|------------------|--|

| | |
|--------------------------|--------------|
| Company secretary | P S K Wright |
|--------------------------|--------------|

| | |
|--------------------------|----------|
| Registered number | 05417914 |
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| Registered office | 5th Floor Greener House 66-68 Haymarket London SW1Y 4RF |
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| | |
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| Independent auditors | Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ |
|-----------------------------|--|

PHP PRIMARY PROPERTIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The Directors, in preparing this Strategic Report, have complied with section 414C of the Companies Act 2006 (the "Act").

Principal activity and Business review

The principal activity of PHP Primary Properties Limited (the "Company") during the year continued to be that of property investment.

The Annual Report for the year ended 31 December 2020 of the Company's ultimate parent undertaking, Primary Health Properties PLC ("PHP"), contains a fair review of its business and that of its subsidiaries (the "Group") and an indication of future developments, as required by section 417 of the Companies Act 2006 (the "Act"). It is incorporated into this report by reference.

The Directors consider the key performance indicator to be rental income on the on the investment property leased by the Company.

For the year ended 31 December 2020 rental income was £11,359,823 (2019 - £11,208,588) which represents an increase of 1.35%. No significant changes to the operations of the Company have occurred during the year ended 31 December 2020.

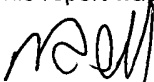
Financial risk management objectives and policies

Details of the principal risks and uncertainties faced by the Company and the Group and their financial risk management objectives and policies are set out in the Annual Report of PHP, the ultimate parent undertaking.

Section 172 Companies Act 2006

The company is a wholly owned subsidiary of PHP. All strategic decisions and stakeholder relationships are managed on a group basis and implemented as relevant to individual subsidiaries. The Annual report for PHP sets out all of the relevant considerations for the company as regards S 172, which are set out on page 48 of the Annual report.

This report was approved by the board on 24 June 2021 and signed on its behalf.



R Howell
Director

PHP PRIMARY PROPERTIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

Disclosures required by section 416(4) of the Act which have been included in the Strategic Report on page 2 as required by section 414C(11) of the Act include:

- Principal activity and business review; and
- Financial risk management objectives and policies

Results and dividends

The profit for the year, after taxation, amounted to £9,174,614 (2019 - £8,885,141). The profit for the year is to be transferred to reserves. A dividend of £5,032,526 was declared and paid in the year (2019 - £9,824,939).

Future developments

No significant business developments are anticipated in the foreseeable future.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Going concern

Reference to the Company's continued adoption of the going concern basis in preparation of these financial statements is made in Note 1.3 on page 12.

Principal risks and uncertainties

Details of the principal risks and uncertainties faced by the Company and the Group and their financial risk management objectives and policies are set out in the Annual Report of PHP, the ultimate parent undertaking.

Directors

The Directors who served during the year were:

H A Hyman
R Howell
D C Austin
C Santer (appointed 18 August 2020)

Directors' and Officers' Liability insurance

PHP has procured Directors' and Officers' Liability Insurance for the benefit of its directors and directors of all of its subsidiaries. Such insurance was available throughout the year and remains in force at the date of this Report. The cost of Directors' and Officers' Liability Insurance is met by another Group company.

PHP PRIMARY PROPERTIES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

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

Auditors

Under section 487(2) of the Companies Act 2006, Deloitte LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

This report was approved by the board on 24 June 2021 and signed on its behalf.



R Howell
Director

PHP PRIMARY PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHP PRIMARY PROPERTIES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of PHP Primary Properties Limited (the "Company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

PHP PRIMARY PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHP PRIMARY PROPERTIES LIMITED (CONTINUED)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

PHP PRIMARY PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHP PRIMARY PROPERTIES LIMITED (CONTINUED)

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud to be in the assumptions in relation to valuations of Investment and Development property. The fair value of the property portfolio is driven by the yields and ERVs applied in the valuation process. The estimation of these key inputs reflect significant judgements based on factors such as (but not limited to) the volume of transactional evidence in the sector together with the characteristics of the individual property and lease. Further, the judgemental nature of the yields and ERVs used in the valuation process is compounded by the uncertainty caused by COVID-19 and Brexit, which has resulted in fluctuations in the investment and occupier markets. Whilst acknowledged that the primary healthcare market has demonstrated resilience and the company's portfolio is regarded as critical infrastructure, there is considered to be potential for increased judgement in the estimations made. The inherent subjectivity in relation to estimation of yields and ERVs, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the statement of comprehensive income and the balance sheet, warrants specific audit focus in this area.

To address the fraud risk, we:

- Met with the external valuers of the portfolio to discuss the results of their work, challenge their valuation processes and discuss significant assumptions and critical judgements over yields and ERVs in the context of publicly available information, including average yields quoted by competitors and comparable property transactions. Where assumptions and critical judgements relate to ERVs, we corroborated the valuers' explanations to the lease agreements or rent reviews agreed in the year;
- Selected a sample of properties, where the yields applied in the valuation are outside our expectations, and challenged the explanations provided with reference to underlying evidence, such as tenancy agreements; and
- Involved our real estate specialist to obtain an overall understanding of the primary healthcare property markets in the UK and Ireland and challenge of the valuation of the investment properties as well as obtain an understanding of the likely effect of Brexit and COVID-19 on the portfolio.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

PHP PRIMARY PROPERTIES LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHP PRIMARY PROPERTIES LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

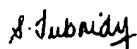
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sara Tubridy FCA (Senior statutory auditor)

for and on behalf of

Deloitte LLP

Statutory Auditor
1 New Street Square
London
EC4A 3HQ
24 June 2021

PHP PRIMARY PROPERTIES LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | Note | 2020 £ | 2019 £ |
|--------------------------------------|------|-------------------|-------------------|
| Rental income | 3 | 11,359,823 | 11,208,588 |
| Direct property expenses | | (448,900) | (600,363) |
| Net rental income | | 10,910,923 | 10,608,225 |
| Administrative expenses | | 15,080 | (2,900) |
| Other operating income | 4 | 3,603 | 8,671 |
| Net result on property portfolio | 10 | 3,740,788 | 3,852,615 |
| Operating profit | | 14,670,394 | 14,466,611 |
| Finance costs | 8 | (5,495,780) | (5,581,470) |
| Profit before tax | | 9,174,614 | 8,885,141 |
| Taxation | 9 | - | - |
| Profit for the financial year | | 9,174,614 | 8,885,141 |

There were no recognised gains and losses for 2020 or 2019 other than those included in the income statement and hence a statement of total comprehensive income has not been prepared.

The notes on pages 12 to 24 form part of these financial statements.

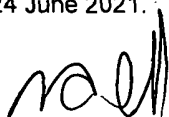
All of the activities of the Company are continuing.

PHP PRIMARY PROPERTIES LIMITED
REGISTERED NUMBER: 05417914

BALANCE SHEET
AS AT 31 DECEMBER 2020

| | Note | 2020 £ | 2019 £ |
|---|------|---------------------|---------------------|
| Non-current assets | | | |
| Investment property | 10 | 206,825,034 | 202,315,000 |
| | | <u>206,825,034</u> | <u>202,315,000</u> |
| Current assets | | | |
| Trade and other receivables | 11 | 597,718 | 829,264 |
| Cash at bank and in hand | | 1,706,950 | 1,248,921 |
| | | <u>2,304,668</u> | <u>2,078,185</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | (16,547,582) | (13,455,516) |
| Borrowings: Term loans | 13 | (2,655,821) | (2,526,693) |
| | | <u>(16,898,735)</u> | <u>(13,904,024)</u> |
| Net current liabilities | | <u>(16,898,735)</u> | <u>(13,904,024)</u> |
| Total assets less current liabilities | | <u>189,926,299</u> | <u>188,410,976</u> |
| Non-current liabilities | | | |
| Borrowings: Term loans | 13 | (107,193,267) | (109,820,032) |
| | | <u>82,733,032</u> | <u>78,590,944</u> |
| Net assets | | <u>82,733,032</u> | <u>78,590,944</u> |
| Equity | | | |
| Share capital | 14 | 1,501,000 | 1,501,000 |
| Retained earnings | 15 | 81,232,032 | 77,089,944 |
| Total equity attributable to the owners of the Company | | <u>82,733,032</u> | <u>78,590,944</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 June 2021.



R Howell
Director

The notes on pages 12 to 24 form part of these financial statements.

PHP PRIMARY PROPERTIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | Share capital £ | Retained earnings £ | Total equity £ |
|--|-----------------------|---------------------------|-------------------|
| At 1 January 2019 | 1,501,000 | 78,029,742 | 79,530,742 |
| Profit for the year | - | 8,885,141 | 8,885,141 |
| Total comprehensive income for the year | - | 8,885,141 | 8,885,141 |
| Dividends: Equity capital | - | (9,824,939) | (9,824,939) |
| At 1 January 2020 | 1,501,000 | 77,089,944 | 78,590,944 |
| Profit for the year | - | 9,174,614 | 9,174,614 |
| Total comprehensive income for the year | - | 9,174,614 | 9,174,614 |
| Dividends: Equity capital | - | (5,032,526) | (5,032,526) |
| At 31 December 2020 | 1,501,000 | 81,232,032 | 82,733,032 |

The notes on pages 12 to 24 form part of these financial statements.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Company is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

The nature of the Company's operations and its principal activities are set out in the Strategic and Directors' Reports on pages 2 to 4. The Company's registered office is detailed on page 1.

The following accounting policies have been applied consistently in the current year unless otherwise stated.

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going concern

The outbreak of COVID-19 during the year has had far reaching consequences across the UK and Ireland on valuations and the recoverability of our debtor balances. Whilst we continue to monitor the impact on property, the Company has been relatively unaffected, properties held being regarded as critical infrastructure in the response to the outbreak. The Directors have assessed the impact of the current uncertainty around COVID-19 on all major aspects of the business, focusing specifically on operations and cash flows of the Group and have a reasonable expectation the Company, together with the support of its ultimate parent, has adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements are authorised to be issued. Accordingly they continue to adopt the going concern basis on preparing the financial statements.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

1.4 Investment properties and investment properties under construction

The Company's investment properties are held for long term investment. Investment properties and those under construction are initially 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. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect future benefits from this future expenditure.

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

Investment properties are recognised for accounting purposes upon completion of contract, which is when control of the asset passes to the Company. Investment properties cease to be recognised when control of the property passes to the purchaser, which is upon completion of the sales contract. Any gains and losses arising are recognised in the Income Statement in the year of disposal.

The Company may enter into a forward funding agreement with third party developers in respect of certain properties under development. In accordance with these agreements, the Company will make monthly stage payments to the developer based on certified works on site at that time. Interest is charged to the developer on all stage payments made during the construction period and on the cost of the land acquired by the Company at the outset of the development and taken to the Income Statement in the year in which it accrues.

1.5 Dividends

Equity dividends are recognised when they become legally payable or receivable. Interim equity dividends are recognised when paid or received. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

Dividends on preference shares recognised as liabilities are recognised as expenses and classified within interest payable.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

1. Accounting policies (continued)

1.6 Financial instruments under IFRS 9

Trade receivables

Trade receivables are recognised and carried at amortised cost as the Company's business model is to collect the contractual cash flows due from tenants. Provision is made based on the expected credit loss model which reflects on the Company's historical credit loss experience over the past three years but also reflects the lifetime expected credit loss.

Cash and cash equivalents

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

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. The interest due within the next twelve months is accrued at the end of the year and presented as a current liability within trade and other payables.

Borrowing costs

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

1. Accounting policies (continued)

1.7 De-recognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- the Company 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; or
- when the cash flows are significantly modified.

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

When the exchange or modification of an existing financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term and any difference in the carrying amount after modification is recognised as a modification gain or loss.

1.8 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.9 Unamortised borrowing costs

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

When the exchange or modification of an existing borrowing facility is not accounted for as an extinguishment, any costs or fees incurred adjust the facility's carrying amount and are amortised over the modified facility's remaining term.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

1.10 Fair value measurements

The Company measures certain financial instruments such as derivatives, and non financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non financial asset takes into account a market participant's ability to generate economic benefits using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques at three levels that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- | | |
|---------|---|
| Level 1 | Quoted (unadjusted) market prices in active markets for identical assets or liabilities. |
| Level 2 | Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. |
| Level 3 | Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable. |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

1.11 Net rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 100% (2019 - 100%) of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. 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. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Net rental income is the rental income receivable in the period after payment of direct property costs.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

1.12 Taxation

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

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

1.13 Impact of new international reporting standards, amendments and interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that have a material impact on the company's financial statements.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Judgements in applying accounting policies and key sources of estimation uncertainty

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

a) Estimates

Fair value of investment properties

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

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

In accordance with RICS 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. The valuer takes into account where the Company's assets under construction are pre let and construction risk remains with the respective developer or contractor.

(b) Judgements

Property acquisitions during the year

The Directors have reviewed the acquisitions during the year on an individual basis in accordance with the requirements of IFRS 3(R). They consider that they all meet the criteria of asset acquisitions rather than business combinations and have accounted for them as such. Although corporate entities were acquired, they were special purpose vehicles for holding properties rather than separate business entities. This judgement was made due to the absence of business processes inherent in the entities acquired.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

3. Rental income

Rental income comprises gross rental income and associated revenue from investment properties in the UK. Rental income is derived from one business segment. Rental income is normally recognised as invoiced on a receivable basis, adjusted for certain rents invoiced in advance, the effect of lease incentives such as rent free periods and accrued income receivable following rent reviews.

Company as a lessor

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

| | Less than one year £ | One to five years £ | More than five years £ | Total £ |
|------|----------------------------|---------------------------|------------------------------|--------------------|
| 2020 | 10,625,996 | 39,624,450 | 56,756,929 | 107,007,375 |
| 2019 | <u>10,505,315</u> | <u>40,926,574</u> | <u>64,395,271</u> | <u>115,827,160</u> |

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

The Company 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 upward-only basis.

4. Other operating income

| | 2020 £ | 2019 £ |
|------------------------|--------------|--------------|
| Other operating income | 3,603 | 8,671 |
| | <u>3,603</u> | <u>8,671</u> |

5. Auditors' remuneration

Auditors' remuneration for audit services and tax compliance for the current year have been borne by PHP, the ultimate parent undertaking. The following amount is applicable to the audit of the Company:

| | 2020 £ | 2019 £ |
|--------------------------------|--------------|--------------|
| Auditors' remuneration - audit | <u>7,436</u> | <u>7,491</u> |

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in note 4 of the group accounts of the parent Company.

PHP PRIMARY PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

6. Employees

The Company has no employees other than the Directors, who did not receive any remuneration (2019 - £NIL).

7. Directors' remuneration

PHP procures the services of directors to all of its subsidiary undertakings under an advisory agreement with Nexus Tradeco Limited, as disclosed in PHP's financial statements. The Directors of the Company have received no remuneration for their services to this company during the year (2019 - £NIL).

8. Finance costs

| | 2020 £ | 2019 £ |
|----------------------------------|------------------|------------------|
| Bank loan interest | 5,466,450 | 5,546,725 |
| Amortisation of loan issue costs | 29,072 | 33,985 |
| Bank fees | 258 | 760 |
| | <u>5,495,780</u> | <u>5,581,470</u> |

9. Taxation

| | 2020 £ | 2019 £ |
|--------------------------|-----------|-----------|
| UK Corporation tax | - | - |
| | <u>-</u> | <u>-</u> |
| Total current tax | <u>-</u> | <u>-</u> |

PHP PRIMARY PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

| | 2020 £ | 2019 £ |
|--|--------------------|-------------|
| Profit on ordinary activities before tax | 9,174,614 | 8,885,141 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%) | 1,743,177 | 1,688,177 |
| Effects of: | | |
| REIT exempt income | (1,743,177) | (1,686,529) |
| Group relief | (42,249) | (3,028) |
| Transfer pricing adjustments | 42,249 | 1,380 |
| Total tax charge for the year | - | - |

Factors that may affect future tax charges

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. These rates have been used to measure deferred tax assets and liabilities where applicable.

The March 2021 Budget announced that the rate will increase to 25% from 1 April 2023 for businesses with profits greater than £250,000.

PHP PRIMARY PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

10. Investment property

| | Investment property leasehold £ | Investment property freehold £ | Total £ |
|---------------------------------|--|---|--------------------|
| Valuation | | | |
| At 1 January 2019 | 35,375,000 | 162,820,000 | 198,195,000 |
| Additions | 261,608 | 5,777 | 267,385 |
| Revaluations | 558,392 | 3,294,223 | 3,852,615 |
| As at 31 December 2019 | 36,195,000 | 166,120,000 | 202,315,000 |
| Additions | 236,184 | 533,028 | 769,212 |
| IFRS 16 ground rent adjustments | 33 | - | 33 |
| Revaluations | 1,823,816 | 1,916,973 | 3,740,789 |
| At 31 December 2020 | 38,255,033 | 168,570,001 | 206,825,034 |

The historical cost of the investment property at 31 December 2020 was £131,026,793 (2019 - £130,257,580).

Investment properties were independently valued at 31 December 2020 by Lambert Smith Hampton, acting as external surveyors on the basis of open market value as defined in the RICS Appraisal and Valuations Manual.

See Note 13 for details of the Group borrowings for which the Company's property is included as security.

11. Trade and other receivables

| | 2020 £ | 2019 £ |
|------------------------------------|-------------------|-------------------|
| Trade debtors | 352,059 | 680,651 |
| Amounts owed by group undertakings | - | 5,836 |
| Other debtors | 40,223 | 5,713 |
| Prepayments and accrued income | 205,436 | 137,064 |
| | 597,718 | 829,264 |

Trade debtors are stated after provisions for impairment of £16,541 (2019 - £NIL).

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

PHP PRIMARY PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

12. Trade and other payables

| | 2020 | 2019 |
|------------------------------------|-------------------|-------------------|
| | £ | £ |
| Trade creditors | 2,457 | 59,164 |
| Amounts owed to group undertakings | 12,727,659 | 9,369,350 |
| VAT due to HMRC | 523,018 | 534,547 |
| Other creditors | 37,655 | 273,884 |
| Accruals and deferred income | 3,256,793 | 3,218,571 |
| | <u>16,547,582</u> | <u>13,455,516</u> |

Amounts owed to Group undertakings are unsecured and repayable on demand.

13. Borrowings: Term loans

Analysis of the maturity of loans is given below:

| | 2020 | 2019 |
|-----------------------------------|--------------------|--------------------|
| | £ | £ |
| Current liabilities | | |
| Term loans | 2,655,821 | 2,526,693 |
| | <u>2,655,821</u> | <u>2,526,693</u> |
| Non-current liabilities | | |
| Term loans | 107,354,548 | 110,009,009 |
| Less: Unamortised borrowing costs | (161,281) | (188,977) |
| | <u>107,193,267</u> | <u>109,820,032</u> |
| | <u>109,849,088</u> | <u>112,346,725</u> |

The Company refinanced its debt with Aviva in August 2014 with the creation of two facilities for a total of £113 million. These comprised a £50 million, 10 year interest only, bullet repayment loan and a £63 million 15 year loan, interest only for five years with an element of amortisation from year six onwards and a final bullet repayment. Both loans carry a fixed interest rate of 4.91% for their duration.

PHP PRIMARY PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

14. Share capital

Shares classified as equity

| | 2020 £ | 2019 £ |
|--|------------------|------------------|
| Issued, allotted and fully paid | | |
| 1,501,000 (2019 - 1,501,000) Ordinary shares of £1 | <u>1,501,000</u> | <u>1,501,000</u> |

15. Retained earnings

| | 2020 £ |
|-----------------------------|--------------------------|
| As at 1 January | 77,089,944 |
| Profit for the year | 9,174,614 |
| Dividends declared and paid | (5,032,526) |
| As at 31 December | <u><u>81,232,032</u></u> |

16. Related party transactions

The Company has taken advantage of the exemption available in FRS 101 not to disclose transactions with other members of the Group on the basis that 100% of voting rights are controlled within the Group. The consolidated financial statements in which the Company is included are publicly available (see note 17).

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is PHP Primary Properties (Haymarket) Limited. The ultimate parent undertaking and the controlling party is Primary Health Properties PLC ("PHP"). PHP's registered address is 5th Floor, Greener House, 66-68 Haymarket, London, SW1Y 4RF.

The parent undertaking of the smallest and largest group of undertakings for which Group financial statements are drawn up and of which the Company is a member is PHP. Copies of the financial statements of PHP can be obtained from Companies House or the Company Secretary or downloaded from www.phpgroup.co.uk.