

Registered number 07193638

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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QUERCUS NO 2 (GENERAL PARTNER) LIMITED

COMPANY INFORMATION

DIRECTORS	N J Kempner D S Skinner B Stirling M D S James
COMPANY SECRETARY	S J Odell
REGISTERED NUMBER	07193638
REGISTERED OFFICE	43-45 Portman Square London W1H 6LY
INDEPENDENT AUDITOR	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

QUERCUS NO 2 (GENERAL PARTNER) LIMITED

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QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

The directors present their report and the financial statements for the year ended 31 December 2014

PRINCIPAL ACTIVITIES

The Company is the General Partner to The Quercus Healthcare Property 2 Limited Partnership, a business set up for the purpose of acquiring properties

The results for the year and the financial position at the year end were considered satisfactory by the directors

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £3,769 (2013 - £1,363)

The directors do not recommend payment of an ordinary dividend (2013 £nil)

DIRECTORS

The directors who served during the year were

N J Kempner
R J Stearn (resigned 31 March 2015)
D S Skinner
B Stirling (appointed 1 October 2014)
N J Gardiner (resigned 1 October 2014)
M D S James (appointed 31 March 2015)

AUDITOR

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditor

DISCLOSURE OF INFORMATION TO AUDITOR

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

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that 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 auditor is aware of that information

This report was approved by the board on 12 August 2015 and signed on its behalf



B Stirling
Director

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014**

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 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.

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUERCUS NO.2 (GENERAL PARTNER) LIMITED

We have audited the financial statements of Quercus No 2 (General Partner) Limited for the year ended 31 December 2014, set out on pages 5 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities statement as set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUERCUS NO 2 (GENERAL PARTNER)
LIMITED**

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, 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, or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report



Bill Holland (Senior statutory auditor)

for and on behalf of
KPMG LLP, Statutory auditor

15 Canada Square
Canary Wharf
London
E14 5GL

~~12~~ August 2015
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QUERCUS NO 2 (GENERAL PARTNER) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £	2013 £
Administrative expenses		(982)	(936)
OPERATING LOSS	2	(982)	(936)
Investment income	3	6,075	3,608
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,093	2,672
Tax on profit on ordinary activities	4	(1,324)	(1,309)
PROFIT FOR THE FINANCIAL YEAR	9	3,769	1,363

All amounts relate to continuing operations

There were no recognised gains and losses for 2014 or 2013 other than those included in the profit and loss account

The notes on pages 7 to 11 form part of these financial statements

QUERCUS NO.2 (GENERAL PARTNER) LIMITED
REGISTERED NUMBER 07193638

BALANCE SHEET
AS AT 31 DECEMBER 2014

	Note	£	2014 £	£	2013 £
FIXED ASSETS					
Investments	5		2		2
CURRENT ASSETS					
Debtors	6	23,369		17,295	
CREDITORS amounts falling due within one year	7	(9,600)		(7,295)	
NET CURRENT ASSETS			13,769		10,000
NET ASSETS			13,771		10,002
CAPITAL AND RESERVES					
Called up share capital	8		3		3
Profit and loss account	9		13,768		9,999
SHAREHOLDERS' FUNDS	10		13,771		10,002

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 12 August 2015

B Stirling
 Director



The notes on pages 7 to 11 form part of these financial statements

QUERCUS NO 2 (GENERAL PARTNER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) and the requirements of the Companies Act 2006, except as explained below

The Company has taken advantage of the exemption in Financial Reporting Standard 1 from the requirement to produce a cash flow statement on the grounds that it is a small company

1.2 Investments

Fixed asset investments are stated at cost less any provision for impairment in value

1.3 Investment income

Investment income is recognised when a distribution is declared by the Company's investment

1.4 Taxation

Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date, except that as permitted by FRS 19 'Deferred Tax' no provision is made for the tax on unrealised property revaluation surpluses. Deferred tax assets are recognised to the extent that they are considered recoverable

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. Accounting policies (continued)

1.5 Group accounts

As general partner of The Quercus Healthcare Property 2 Limited Partnership the Company is considered to have control over the limited partnership. However, the Company only has a direct interest in the limited partnership of 0.1% (refer note 5).

The directors therefore consider the financial statements would not give a true and fair view if the assets and liabilities and income and expenditure of the partnership were to be fully consolidated. Therefore they have opted to proportionally consolidate the Company's interest in The Quercus Healthcare Property 2 Limited Partnership in order for the financial statements to give a true and fair view. After assessing the impact of this the directors have confirmed that under section 383 of the Companies Act 2006, the Company is exempt from the requirement to prepare consolidated accounts on the grounds that the group is not large and is not an ineligible group. Consequently, the financial statements present information about the Company as an individual undertaking and not about its group.

If the financial statements of the partnership were fully consolidated the Company would present consolidated accounts and the group's consolidated financial statements would show the following amounts:

	2014 £'000	2013 £'000
Profit before minority interests	8,082	7,386
Minority interests in the profit and loss account	(8,074)	(7,379)
Net amount before tax	<u>8</u>	<u>7</u>
Non-current assets	104,425	110,700
Net current (liabilities)/assets	(44,206)	7,287
Non-current liabilities	-	(53,500)
Minority interests in the balance sheet	(60,159)	(64,423)
Net assets	<u>60</u>	<u>64</u>

2. Operating loss

Fees of £818 (2013: £780) are payable to the Company's auditor, KPMG LLP, for the audit of the Company.

None of the directors received any remuneration for their services as directors to the Company in the current or prior year.

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

3. Investment income

	2014 £	2013 £
Income from shares in group undertakings	<u>6,075</u>	<u>3,608</u>

4. Taxation

	2014 £	2013 £
UK corporation tax charge on profit for the year	<u>1,324</u>	<u>1,309</u>

Factors affecting tax charge for the year

The tax assessed for the year is the standard rate of small business corporation tax in the UK of 20% (2013 - 20%) As explained below

	2014 £	2013 £
Profit on ordinary activities before tax	<u>5,093</u>	<u>2,672</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2013 - 20%)	1,019	534
Effects of		
Accrued partnership income	1,616	1,477
Non-taxable partnership income	(1,215)	(722)
Adjustment to previous accounting periods	(96)	20
Current tax charge for the year	<u>1,324</u>	<u>1,309</u>

5. Fixed asset investments

	Investments in subsidiary companies £
Cost	
At 1 January 2014 and 31 December 2014	<u>2</u>

QUERCUS NO 2 (GENERAL PARTNER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

5. Fixed asset investments (continued)

Subsidiary undertakings

The Company holds more than 20% of the share capital of the following companies (each company is incorporated in England and Wales)

Name	Class of shares	Holding
Quercus Nursing Homes 2010 (C) Limited	Ordinary	100%
Quercus Nursing Homes 2010 (D) Limited	Ordinary	100%

Other investments

The Company has an interest in The Quercus Healthcare Property 2 Limited Partnership (QHPP2), a business for the purposes of acquiring properties which provide annual rental increases linked to the RPI including in certain circumstances minimum fixed uplifts. At 31 December 2014 its stake was 0.1%

The Company does not prepare consolidated accounts incorporating the results of QHPP2 or the dormant subsidiaries above, because the directors consider that they would not give a true and fair value of the assets and liabilities and income and expenditure of the group, as discussed in note 1.5

6. Debtors

	2014 £	2013 £
Amounts owed by related parties (see note 13)	23,369	17,295

Amounts owed to related parties are interest free and repayable on demand

7. Creditors

Amounts falling due within one year

	2014 £	2013 £
Amounts owed to related parties (see note 13)	7,141	4,245
Corporation tax	1,477	1,367
Accruals and deferred income	982	1,683
	9,600	7,295

Amounts due to related parties are interest free and repayable on demand

8. Share capital

	2014 £	2013 £
Allotted, called up and fully paid		
3 Ordinary shares of £1 each	3	3

QUERCUS NO.2 (GENERAL PARTNER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

9. Statement of movement on profit and loss account

	Profit and loss account £
At 1 January 2014	9,999
Profit for the financial year	3,769
	<hr/>
At 31 December 2014	13,768
	<hr/>

10 Reconciliation of movement in shareholders' funds

	2014 £	2013 £
Opening shareholders' funds	10,002	8,639
Profit for the financial year	3,769	1,363
	<hr/>	<hr/>
Closing shareholders' funds	13,771	10,002
	<hr/>	<hr/>

11. Employees

There were no employees during this or the prior year

12. Control

The Company's immediate parent company is Quercus GP Holdco Limited and its ultimate parent company is Quercus (General Partner) Limited which is jointly controlled by Quondam Estates Limited and Norwich Union (Shareholder GP) Limited. These companies are ultimately controlled by Quintain Estates and Development Plc and Aviva Plc.

13. Related parties

Recoverable/(payable) balances at the year ends are as follows

	2014 £	2013 £
The Quercus Healthcare Property 2 Limited Partnership	22,907	16,833
Quercus GP Holdco Limited	3	3
Quercus (General Partner) Limited	459	459
The Quercus Healthcare Property Partnership	(7,141)	(4,245)
	<hr/>	<hr/>

Registered in England No: LP013853

**THE QUERCUS HEALTHCARE PROPERTY 2 LIMITED
PARTNERSHIP**

**GENERAL PARTNER'S REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

THESE PARTNERSHIP
ACCOUNTS FORM
PART OF THE ACCOUNTS
OF COMPANY
No. 7193638



The Quercus Healthcare Property 2 Limited Partnership

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The Quercus Healthcare Property 2 Limited Partnership

Partners, Advisers and Other Information

Partners:

Limited Partner:

Quercus (General Partner) Limited

General Partner:

Quercus No 2 (General Partner) Limited

Auditor:

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Bankers:

Abbey National PLC
2-3 Triton Square
Regent's Place
London
NW1 3AN

Registered Place of Business:

43-45 Portman Square
London
W1H 6LY

Registered No LP013853

The Quercus Healthcare Property 2 Limited Partnership

Strategic Report

The General Partner has pleasure in presenting its report to the Partnership for the year ended 31 December 2014 together with the financial statements

Principal Activity

The principal activities of the Partnership are the acquisition, disposal, letting, redevelopment, refurbishment and management of healthcare property assets which fulfil the criteria of freehold, long leasehold, or with the consent of the General Partner, an income stream related to the long term use of health assets. The General Partner expects the nature of activities to remain the same for the foreseeable future, although the volume of acquisitions and disposals will vary year on year depending on prevailing market conditions

Enhanced Business Review

In March 2010 the General Partner, in conjunction with Quercus (General Partner) Limited (its parent company) established the Partnership. Quercus (General Partner) Limited is the limited partner of the Partnership and holds a 99.9% interest but holds this interest on trust for the Quercus Healthcare Property Partnership. Group funding for the Partnership is provided by way of unsecured, non-interest bearing loans from the Quercus Healthcare Property Partnership.

The partnership generated a profit in the year of £8.1m (2013: £7.4m) and made distributions to its Limited Partners of £6.1m (2013: £3.6m). £2.0m of distributions were withheld in the year (2013: £3.8m). The Fund Manager intends to distribute the £2.0m of retained 2014 profits during 2015.

Objectives/Strategy

- Work towards rationalising the portfolio so as to improve the quality of assets held by disposing of non-core assets
- Manage and turnaround non-performing assets
- Actively manage the portfolio to enhance performance through the following
 - Capital expenditure to improve the quality of the portfolio assets and increase trading performance
 - Rentalised capital expenditure
 - Acquisition/sales that enhance returns and / or reduce risk

Partnership Performance:

The Partnership made no acquisitions or disposals (2013: none) in the year. The property portfolio yielded a gross rental income of £10.1m (2013: £9.9m) for the year ended 31 December 2014.

On 10 September 2010 a loan facility of £65m was entered into with Santander. As at 31 December 2014 £53.5m was drawn on this facility.

The business review is required to contain financial and where applicable, non-financial key performance indicators ("KPIs"). The General Partner considers that, in line with the activities and objectives of the business, the financial KPIs set out below are those which communicate the performance of the Partnership as a whole. These KPIs comprise

	Year ended 31 December 2014	Year ended 31 December 2013
Capital Value	£104.4m	£110.7m
No of Assets	27	27
Initial Yield	9.23%	9.06%
Equivalent Yield	12.05%	11.55%

The Quercus Healthcare Property 2 Limited Partnership

Strategic Report (continued)

Capital Management & Objectives:

The Partnership operates as a geared fund and bank debt of £53.5m was drawn as at 31 December 2014 giving a loan to value of 51%. Advance equity of £82.7m has been provided to the Partnership from The Quercus Healthcare Property Partnership in accordance with the Partnership Agreement, and is unsecured and non-interest bearing. Together this has been used to provide funds to for the 27 properties owned by the partnership. The bank facility expires in September 2015 and Santander expressed a willingness to provide a 5 year term extension to the facility.

Quarterly revenue distributions were made during the year, totalling £6.1m (2013: £3.6m), 99.9% being distributed to The Quercus Healthcare Property Partnership.

Market Review:

2014 saw a marked increase in the level of transactions in the Care Homes market. The Specialist sector witnessed corporate activity such as the successful flotation of Cambian, the sale of the Voyage business and early in 2015, the acquisition of Autism Care (UK) from Maria Mallaband by Lifeways.

In the Elderly Care segment, there was increased activity from focussed US Healthcare REITs with Healthcare REIT and HCP completing transactions in the UK. The increased level of activity has spread beyond the prime assets typically characterised as private pay, South East located, strong covenant, to other good secondary properties. Some UK institutions have also been active either as investors such as M&G or lenders such as Legal & General.

Operators however have continued to run within tight constraints notwithstanding the onward march of the demographics and the general increase in the ageing UK population. Whilst the worst may be over in terms of austerity driven cuts in the sector, increases in fees are still modest and margins remain tight in the publicly funded market. Laing & Buisson recently reported HM Government's Better Care Fund was a welcome acknowledgement that the Health and Social Care systems need to be better integrated in the UK. The NHS was instituted to deal with acute medical problems and now is increasingly dealing with health related issues of an ageing population, and is therefore having to adapt. Integration of Health and Social Care has been talked about for many years but there are now real actions evidenced by the proposed integration of Health and Social Care in Manchester. This could lead to more joined up plans for the elderly in particular and more effective use of existing elderly care resources.

The impact of the Dilnot Review inspired changes to funding whereby anyone with assets of under £118,000, rather than £23,250 previously, will be entitled to state funded care and the lifetime cap on care costs of £72,000 for all is difficult to assess as to date it has not precipitated products from the insurance industry to cover these costs. Theoretically more people will be entitled to state funded care, however how this is paid for without new funding for local authorities is unclear.

Increased price transparency of fees could destabilise the market as one of the ways many operators generate a viable operating margin is to charge top up fees to residents over and above what the local authority may be willing to pay. If the required transparency makes top up fees more difficult to charge, this could affect some marginal operators.

The main challenge for many operators is the national shortage of suitable staff, especially qualified nurses. This means that agency usage can increase, especially if the newly invigorated CQC has concerns over staffing levels, which is very damaging to margins. Staff costs are also under pressure from the minimum wage since this affects not only those paid at that level but those right up the pay grade due to the need to maintain the premium for higher grade staff.

The Quercus Healthcare Property 2 Limited Partnership

Strategic Report (continued)

Overall, the Care Homes sector continues to face challenges mostly on funding of fees and staffing but the investment market is far more liquid than for a number of years

Principal Risks

- Local Authorities remain under pressure from Central Government to make further cuts to their spending budgets. With the majority of tenants within the Quercus portfolio reliant on public sector funding there is a real risk of tenant defaults or rent concessions
- With payroll accounting for over 50% of operator costs, any additional increases in the National Minimum Wage and add on costs such as extended pension entitlements, will impact further on the profitability of care provision
- On-going compliance with loan covenants within the existing bank facilities if asset values fall further

The General Partner continues to review these risks and maintains flexible and proven policies and strategies for addressing them on a case by case basis according to the operator

Financial Instruments:

The Partnership's principal financial instrument comprises a loan facility and swaps with Santander. The purpose of this financial instrument is to finance the operations of the Partnership.

The principal risks arising from the Partnership's financial instruments are interest rate risk and liquidity risk. The General Partner reviews these risks and develops policies for managing the risk as follows:

Interest rate risk – 70% of debt as at 31 December 2014 was fixed until 10 March 2015, via a fixed rate swap instrument. The remainder is based upon a three month LIBOR rate.

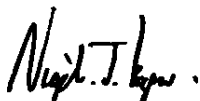
Key Relationships:

The key relationships are regarded as with the tenant/operator and with the asset and fund manager.

The Property and Asset Manager for the Partnership and for the Quercus Healthcare Property 2 Limited Partnership is Quintain Estates and Development Plc. The dedicated Quercus team at Quintain has many years' experience in the Care Home sector and wider healthcare market.

The team covers procurement and development of new facilities across a range of care types, asset enhancement management (e.g. reconfiguration, change of registration, refurbishment and tenant re-organisation) and operations management (overseeing rent and insurance collection).

The Fund Manager for both partnerships is Aviva Investors Global Services Limited ("Aviva Investors"). Aviva Investors has a Property Investment Team comprising over 100 investment professionals and has a dedicated Specialist Property Funds Team running sector-focused funds (including healthcare, urban regeneration, retail warehousing, shopping centres, airport related properties, and multi-let industrial estates). Aviva Investors' role in Quercus includes high level strategy, equity and debt management, investor relations/reporting, approval of asset management plans/sales and purchases and approval of all capital expenditure.



For and on behalf of the Partnership
Director of Quercus No 2 (General Partner) Limited
17 June 2015

The Quercus Healthcare Property 2 Limited Partnership

General Partner's Report to the Partnership

Results and Distributions

The profit for the year ended 31 December 2014 was £8.1m (2013 £7.4m). Distributions to the partners in the year were £6.1 (2013 £3.6m). Profits retained for the year were £2.0m (2013 £3.8m).

Partners and Partners' Interests

The Partners at 31 December 2014 and their interests in the equity capital and advance equity were as follows

	Equity Capital	Advance equity
	£	£
Quercus (General Partner) Limited	10	82,700,000
Quercus No 2 (General Partner) Limited	1	-

Disclosure of information to the auditor

Each person who was a director of the General Partner on the date that this report was approved confirms that

- (a) so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the Partnership's auditor is unaware, and
- (b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information

Auditor

KPMG LLP has been appointed as auditor of the Partnership. A resolution will be submitted at the forthcoming Partnership meeting to reappoint KPMG LLP as auditor and to authorise the General Partner to determine their remuneration.



For and on behalf of the Partnership
Director of Quercus No 2 (General Partner) Limited
17 June 2015

The Quercus Healthcare Property 2 Limited Partnership

Statement of Responsibilities in Respect of the Strategic Report, General Partner's Report and Financial Statements

The General Partner is responsible for preparing the Strategic Report, the General Partner's Report and the Partnership financial statements in accordance with applicable law and regulations

The Partnerships (Accounts) Regulations 2008 require the General Partner to prepare Partnership financial statements for each financial year in accordance with Part 15 and Chapter 1 of Part 16 of the Companies Act 2006. Under that law the General Partner has elected to prepare both the Partnership financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the General Partner must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Partnership and of the result of the Partnership for that period. In preparing the Partnership financial statements, the members are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

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

Independent Auditor's Report to the Partners of Quercus Healthcare Property 2 Limited Partnership

We have audited the financial statements of Quercus Healthcare Property 2 Limited Partnership for the ended 31 December 2014 set out on pages 9 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 4 of the Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the partnership'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 partnership and the partnership's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the General Partner's Responsibilities Statement set out on page 7, the General Partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the partnership's affairs as at 31 December 2014 and of the partnership's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to qualifying partnerships requires us to report to you 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 members' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Bill Holland (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
22 June 2015

The Quercus Healthcare Property 2 Limited Partnership

Profit and Loss Account

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Turnover	2	10,110	9,928
Cost of sales	3	<u>(27)</u>	<u>13</u>
Gross profit		10,083	9,941
Administrative expenses		<u>(660)</u>	<u>(928)</u>
Operating profit	4	9,423	9,013
Interest receivable		21	11
Interest payable		<u>(1,362)</u>	<u>(1,638)</u>
Profit for the financial year	13	<u>8,082</u>	<u>7,386</u>

All amounts reported in the profit and loss account relate to continuing operations

The notes on pages 13 - 18 form an integral part of these financial statements

The Quercus Healthcare Property 2 Limited Partnership

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2014

		2014	2013
		£'000	£'000
	Notes		
Profit for the financial year before distributions	13	8,082	7,386
Unrealised deficit on revaluation of investment properties	13	(6,275)	(5,670)
Total recognised gains for the year		<u>1,807</u>	<u>1,716</u>

The notes on pages 13 - 18 form an integral part of these financial statements

The Quercus Healthcare Property 2 Limited Partnership
Registered Number: LP013853
Balance Sheet

As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investment properties	6	104,425	110,700
		<u>104,425</u>	<u>110,700</u>
Current assets			
Debtors	7	9,181	6,673
Cash at bank and in hand		1,446	1,927
		<u>10,627</u>	<u>8,600</u>
Creditors: amounts falling due within one year	8	<u>(54,833)</u>	<u>(1,313)</u>
Net current (liabilities)/assets		<u>(44,206)</u>	<u>7,287</u>
Total assets less current liabilities		60,219	117,987
Creditors: amounts falling due after more than one year	9	-	(53,500)
Net assets attributable to the Partners		<u>60,219</u>	<u>64,487</u>
Capital and reserves			
Partners' capital	10	82,700	82,700
Revaluation reserve	11	(28,266)	(21,991)
Profit and loss account	12	5,785	3,778
Partners' funds	13	<u>60,219</u>	<u>64,487</u>

The notes on pages 13 - 18 form an integral part of these financial statements

The financial statements have been approved and authorised for issue for and on behalf of the Partnership



Director of Quercus No 2 (General Partner) Limited
17 June 2015

The Quercus Healthcare Property 2 Limited Partnership

Cash Flows Statement

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Net cash inflow from operating activities	14(a)	6,912	5,041
Returns on investments and servicing of finance	14(b)	(1,324)	(1,491)
Distribution to Limited Partners		<u>(6,069)</u>	<u>(3,604)</u>
Cash outflow before financing		(481)	(54)
Financing		<u>-</u>	<u>-</u>
Net decrease in cash		<u>(481)</u>	<u>(54)</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Net decrease in cash	(481)	(54)
Movement in net debt	<u>(481)</u>	<u>(54)</u>
Net debt at 1 January	(51,573)	(51,519)
Net debt at 31 December	<u>(52,054)</u>	<u>(51,573)</u>

The notes on pages 13 - 18 form an integral part of these financial statements

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014

1 Accounting policies

(a) Basis of preparation

Under the Partnerships (Accounts) Regulations 2008, the Partnership, as a qualifying partnership, is required to prepare and have audited financial statements under Part 15 and Chapter 1 of Part 16 of the Companies Act 2006 as if the Partnership was a company formed and registered under the Companies Act

Under the Companies Act, the General Partner has the choice whether their financial statements are prepared under that applicable law and either UK Accounting Standards (UK Generally Accepted Accounting Practice) or International Financial Reporting Standards (IFRSs) as adopted by the EU. The General Partner has decided to apply UK Generally Accepted Accounting Practice

The financial statements have been prepared on a going concern basis, which assumes that the Partnership will continue to meet its liabilities as they fall due. In reaching this conclusion, the directors of the General Partner have considered the Group's cash flow and loan covenant projections derived from its business plan. At 31 December the Group has debt repayments due in 2015 totalling £53.5m. Discussions have taken place with Santander to extend their facility. The General Partner expects to conclude the refinancing prior to the maturity of the loan and will be able to meet all obligations, including financial covenants, in its loan facilities, for the foreseeable future.

(b) Investment properties

In accordance with the Statement of Standard Accounting Practice No 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, and no depreciation or amortisation is provided in respect of freehold investment properties and leasehold properties with over 20 years to expire. Deficits which are considered to be permanent are charged to the profit and loss account. This treatment represents a departure from the requirements of the Companies Act concerning the depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Partners consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which may otherwise have been shown cannot be separately identified or quantified. Property assets are included as investment property on completion of contracts.

2 Turnover

Turnover, which excludes value added tax, represents amounts earned from third parties. Turnover is attributable to continuing activities in the UK, comprising the letting and management of property and sale of trading properties. Turnover includes the impact of the application of UITF Abstract 28 "Operating Lease Incentives", so that the cost of the incentive is recognised as a reduction of rental income over the lease term or the expected term until prevailing market rental will be paid.

	2014 £'000	2013 £'000
Gross rental income	10,110	9,928

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

3 Cost of sales

	2014 £'000	2013 £'000
Ground rent	1	1
Irrecoverable property costs	-	7
Bad debts	26	(21)
	<u>27</u>	<u>(13)</u>

4 Operating profit

	2014 £'000	2013 £'000
Operating profit is stated after charging		
Property Manager's fees	369	468
Auditor's fees	9	8
Fund Manager's fees	<u>185</u>	<u>273</u>

5 Taxation

The provisions of Section 111 of the Income and Corporation Taxes Act 1988 require the taxable gains and losses of a limited partnership to be assessable directly upon the partners. Accordingly no provision has been made for taxation in these financial statements.

6 Investment properties

At valuation

	2014 £'000	2013 £'000
Net book value at 1 January	110,700	116,370
Deficit on revaluation	<u>(6,275)</u>	<u>(5,670)</u>
Net book value at 31 December	<u>104,425</u>	<u>110,700</u>

The investment properties were valued at their open market value for existing use, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors, on 31 December 2014 by Savills (UK) Limited.

The historical cost of investment property is as follows

	2014 £'000	2013 £'000
Investment property at historical cost	<u>132,691</u>	<u>132,691</u>

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

7 Debtors

	2014 £'000	2013 £'000
Trade debtors	1,722	1,102
Amount due from Quercus Healthcare Property Partnership	7,287	5,571
Other debtors	172	-
	<u>9,181</u>	<u>6,673</u>

8 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans	53,500	-
Distribution payable	23	17
Accruals	419	472
Deferred income	891	824
	<u>54,833</u>	<u>1,313</u>

The loans are secured by legal mortgages in respect of the Partnership's investment property, and by assignments of the rental income. The average cost of debt for 2014 was 2.6% (2013 2.7%).

Total debt drawn down on the Santander facility was £53.5m (2013 £53.5m) as at the end of December 2014, of which £37.45m/70% (2013 £37.45m/70%) is hedged. This represents an overall loan to value ratio of 51.2% (2013 48%) based on the assets over which the debt is secured. The loan repayment date is 10 September 2015.

During the year the Partnership had the following fixed rate swap instruments:

- £37,450,000 fixed at 0.76% to 10 September 2014 and thereafter at 0.965% until 10 March 2015.

A valuation was carried out by J C Rathbone Associates Ltd as at 31 December 2014 to calculate the market value of the fixed rate instruments on a replacement basis. The difference between the market value of the fixed rate debt instruments, based on the interest rate yield curve as at 31 December 2014, and the rate historically committed, namely the fair value adjustment, would decrease the value of the fixed rate debt instruments by £28,069 (2013 decrease of £68,197).

9 Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Bank loans	-	53,500
	<u>-</u>	<u>53,500</u>

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

10 Partners' capital

	Quercus (General Partner) Ltd £'000	Quercus No.2 (General Partner) Ltd £'000	Total £'000
At 1 January 2014 and 31 December 2014	82,700	-	82,700

On termination of the Partnership, the Limited Partner's advance equity contribution is repayable in priority to any distributions to the equity interests in the Partnership. The advance equity contribution is unsecured, non-interest bearing and is issued and redeemed at £1 par value. The General Partner therefore regards it as capital of the Partnership.

11 Reconciliation of movement in revaluation reserve

	2014 £'000	2013 £'000
Revaluation deficit at 1 January	(21,991)	(16,321)
Unrealised deficit on revaluation in year	(6,275)	(5,670)
Revaluation deficit at 31 December	(28,266)	(21,991)

12 Reconciliation of movement in profit and loss account

	2014 £'000	2013 £'000
Profit and loss account at 1 January	3,778	-
Profit for the financial year	8,082	7,386
Distributions payable	(6,075)	(3,608)
Profit and loss account at 31 December	5,785	3,778

13 Reconciliation of movement in partners' funds

	2014 £'000	2013 £'000
Partners' funds at 1 January	64,487	66,379
Profit for the financial year	8,082	7,386
Distributions payable	(6,075)	(3,608)
Movement on revaluation reserve	(6,275)	(5,670)
Partners' funds at 31 December	60,219	64,487

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

14 Notes to the statement of cash flows

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

	2014 £'000	2013 £'000
Operating profit	9,423	9,013
Increase in debtors	(2,336)	(4,032)
Increase/(decrease) in creditors	(175)	60
Net cash inflow from operating activities	<u>6,912</u>	<u>5,041</u>

(b) Returns in investments and servicing of finance

	2014 £'000	2013 £'000
Interest received	21	11
Interest paid	(1,345)	(1,502)
	<u>(1,324)</u>	<u>(1,491)</u>

15 Contingent liabilities and commitments

There were no contingent liabilities or commitments at the balance sheet date

16 Related party transactions

Aviva Investors and Norwich Union (Shareholders GP) Limited are under common control. Charges of £184,522 (2013 £273,101) are included in these financial statements in respect of Aviva Investors' fees as Fund Manager, of which £28,766 (2013 £50,632) was outstanding as at 31 December 2014. The ultimate holding company of both these entities is Aviva plc.

A charge of £369,048 (2013 £467,764) is included in these financial statements in respect of asset management services provided during the period by Quintain Estates & Development Plc, the ultimate holding company of Quondam Estates II Limited, of which £74,038 (2013 £99,735) was outstanding as at 31 December 2014. Quintain Estates & Development Plc did not receive any procurement fees (2013 £nil) in the year.

At 31 December 2014 the amount owing from The Quercus Healthcare Property Partnership was £7,286,741 (2013 £5,571,226).

In accordance with the Partnership Agreement distributions of net income have been allocated to the Partners to which the distribution relates. At the period end the percentage holdings were Quercus (General Partner) Limited 99.9% (held on trust for the Quercus Healthcare Property Partnership) and Quercus No 2 (General Partner) Limited 0.1%.

The Quercus Healthcare Property 2 Limited Partnership

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

17 Controlling party

The controlling party is Quercus (General Partner) Limited, as this company is both limited partner of the Partnership and the parent company of the general partner of the Partnership, Quercus No 2 (General Partner) Limited. Quercus (General Partner) Limited is jointly controlled by Norwich Union (Shareholders GP) Limited and Quondam Estates Limited. The ultimate owners are Aviva plc and Quintain Estates & Development Plc respectively whose financial statements are publicly available from Companies House, Crown Way, Mandy, Cardiff, CF14 3UZ.

18 Post balance sheet events

During 2014 undisclosed conflicts of interest, were identified by the Asset Manager, Quintain Estates and Development plc. Quintain instigated an investigation by its lawyers, Norton Rose Fulbright, including a review of historic procurement and disposal fees charged by Quintain and others to the Fund focussed on the period 2004 to 2011.

In May 2015, following completion of the investigation and with the support of the General Partner, a settlement without any admission of legal liability by Quintain or the Fund Manager, Aviva Investors, of £0.3m was agreed in favour of the Partnership.