

Highway (Burnley) Limited

Annual report

for the year ended 31 December 2004

Registered number: 2693859



Highway (Burnley) Limited

Annual report for the year ended 31 December 2004

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Highway (Burnley) Limited

Directors and advisors

Executive directors

A E Smith (appointed on 19 April 2004)
M Hill (appointed on 8 February 2005)
C Cameron (appointed on 18 December 2005)

Secretary

BLG (Professional Services) Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7NJ

Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Registered office

Craegmoor House
Perdiswell Park
Worcester
WR3 7NW

Bankers

Barclays Bank Plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

Highway (Burnley) Limited

Directors' report for the year ended 31 December 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The Company is principally engaged in the provision of care.

Review of business and future developments

Both the level of business and the year end position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

On 31 December 2004 the Company's current assets, current liabilities and employees were transferred to Craegmoor Facilities Company No 2 Limited, a fellow group company, at no gain or loss.

Audit opinion qualification

As described fully in note 1 to the financial statements, the accounting problems experienced by the Craegmoor Group during the year, and subsequently, have given rise to a qualification in the auditors' report concerning the keeping of proper books and records as required by the Companies Act 1985.

Results and dividends

The profit and loss account shows a profit after tax for the year of £49,000 (10 weeks ended 31 December 2003: £6,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (10 weeks ended 31 December 2003: £Nil).

Directors and their interests

The directors who held office up to the date of this report are listed on page 1. In addition M A Stratford resigned on 20 May 2004 and A Kay resigned on 14 November 2004. R Saville was appointed on 1 November 2004 and resigned on 1 December 2004. C Andrews was appointed on 1 December 2004 and resigned on 8 February 2005.

R Saville and M A Stratford were directors of the ultimate parent company in the United Kingdom, Craegmoor Limited, and their share interests are shown in the directors' report of that company. A E Smith is a director of the ultimate parent company in the United Kingdom, Craegmoor Limited, and his share interests are shown in the directors' report of that company.

No other director as at 31 December 2004 or 31 December 2003 had any interest in the share capital of Highway (Burnley) Limited or in that of the ultimate parent company, Craegmoor Limited.

A Kay held 2,000 share options over the ordinary shares of Craegmoor Limited as at 14 November 2004 (31 December 2003: 2,000). These options had an exercise price of £1 each and could be exercised on the sale of Craegmoor Limited by its current shareholders. No other directors of Highway (Burnley) Limited held any share options in Craegmoor Limited at 31 December 2004 or 31 December 2003.

Changes in fixed assets

Movements in tangible fixed assets during the year are set out in note 8 to the financial statements.

Highway (Burnley) Limited

Directors' report for the year ended 31 December 2004 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.


The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

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

Auditors

On 26 July 2004 PricewaterhouseCoopers LLP, auditors to the Craegmoor Health group, were appointed as auditors to the Company.

By order of the Board



A E Smith
Director
23 February 2006

Independent auditors' report to the members of Highway (Burnley) Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

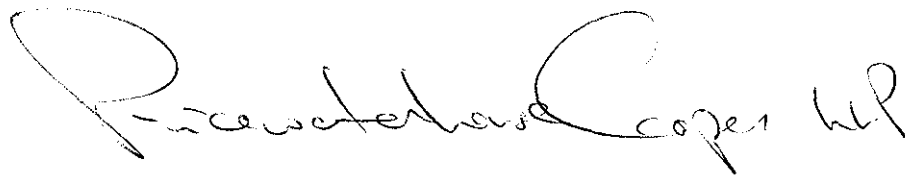
In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the financial statements (*Going Concern*) concerning the ongoing negotiations of the directors of the ultimate holding company, Craegmoor Limited, with lenders to the group for renewal of existing overdraft facilities, restructuring of loan facilities and renegotiation of lending obligations and covenants. The financial statements of the Company have been prepared on a going concern basis, the validity of which depends on the successful conclusion of these negotiations with the group's lenders. The financial statements do not include any adjustments that would result from a failure of the group to obtain this funding. Our opinion is not qualified in this respect.

Independent auditors' report to the members of Highway (Burnley) Limited (continued)

Qualified opinion arising on the keeping of proper accounting records

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

As set out in Note 1 (*Problems arising from closure of the Regional Accounting Centres*), the company encountered difficulties with the transfer of the accounting processes from the former regional accounting centres to a newly established Shared Service Centre which led to serious accounting issues. Consequently, the company did not maintain accurate records relating to the allocation of sales transactions and cash receipts during the year. In this respect alone in our opinion proper accounting records, as required by Section 221 of the Companies Act 1985, have not been kept throughout the year. However, by virtue of the transfer of trade debtor balances to another group company before the year end we have satisfied ourselves that the resultant inter-company balance recognised in the financial statements at the year-end is fairly stated.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers LLP', is written over a faint, larger version of the same text.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

23 February 2006

Highway (Burnley) Limited

Profit and loss account for the year ended 31 December 2004

		52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	Note	£'000	£'000
Turnover	2	366	77
Cost of sales		(182)	(40)
Gross profit		184	37
Administrative expenses		(106)	(29)
Operating profit on ordinary activities before taxation	6	78	8
Tax on profit on ordinary activities	7	(29)	(2)
Retained profit for the financial period	14	49	6

All activities relate to continuing operations.

Highway (Burnley) Limited

Statement of total recognised gains and losses for the year ended 31 December 2004

		52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	Note	£'000	£'000
Profit for the financial period		49	6
Unrealised surplus on revaluation of properties	8	-	868
Total recognised gains and losses for the period		49	874

Note of historical cost profit and losses for the year ended 31 December 2004

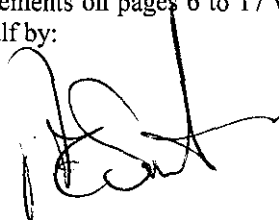
	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	£'000	£'000
Reported profit on ordinary activities before taxation	78	8
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	15	2
Historical cost profit on ordinary activities before taxation	93	10
Historical cost profit for the period after taxation	64	8

Highway (Burnley) Limited

Balance sheet as at 31 December 2004

		2004	2003
	Note	£'000	£'000
Fixed assets			
Tangible assets	8	1,004	1,045
Current assets			
Debtors	9	97	52
Cash at bank and in hand		-	31
		97	83
Creditors: amounts falling due within one year	10	(127)	(192)
Net current liabilities		(30)	(109)
Total assets less current liabilities		974	936
Creditors: amounts falling due after more than one year	11	(4)	(15)
Net assets		970	921
Capital and reserves			
Called up share capital	13	-	-
Revaluation reserve	14	868	868
Profit and loss account	14	102	53
Total equity shareholders' funds	15	970	921

The financial statements on pages 6 to 17 were approved by the board of directors on 23 February 2006 and signed on its behalf by:



A E Smith
Director

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004

1 Principal accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below:

Problems arising from closure of the Regional Accounting Centres

In 2004, as part of a process of streamlining the financial operations of the Craegmoor group, the decision was taken to close 11 regional accounting centres, transfer the processes to a newly established Shared Service Centre in Worcester and at the same time migrate the accounting systems to a new computer software system. Difficulties were encountered with the transfer process that led to a number of serious accounting issues within the Shared Service Centre including, most significantly, difficulties in allocating cash received from debtors against their accounts, the lack of timely completion of key accounting reconciliations and some inaccuracies in the customer invoicing process resulting in the need to subsequently issue credit notes and make provision for doubtful debts. This led to delays for many months in determining the exact recoverability or otherwise of the trade debtor amounts as at 31 December 2004 and consequently to the production of the 2004 statutory accounts while investigations were completed.

For the consolidated accounts of Craegmoor Limited, the ultimate parent company, the directors have taken extensive actions to assess the full recoverability of trade debtors, and full provision has been made where amounts are determined not to be collectible. Nonetheless, some uncertainty does remain that will not be fully eliminated until the 2005 accounting reconciliations are themselves completed and provide evidence regarding the position presented. Any adjustments identified have been allocated, as appropriate, to the relevant subsidiary company.

On 31 December 2004, these adjusted trade debtor balances of the company were transferred at book value via inter-company account to a fellow subsidiary undertaking, Craegmoor Facilities Company No.2 Limited, as part of a group reorganisation. As such, the risk and rewards related to these trade debtor amounts have been transferred to that company. Any future adjustment to these amounts that may prove to be necessary will be borne by Craegmoor Facilities Company No.2 Limited.

Consequently, the report of the auditors makes reference to the failure of the company to maintain proper books and records in respect of sales ledger transactions and associated cash receipt allocations during the year, although, for the reason referred to above, the valuation of the year-end inter-company balance with Craegmoor Facilities Company No.2 Limited is not qualified.

Going Concern

By not delivering audited financial statements within 6 months of the year end, the ultimate parent company, Craegmoor Limited, and certain of its subsidiaries, have not complied with obligations relating to certain borrowings included in the group's consolidated financial statements. Under the terms of the relevant agreements, these failures potentially give rise to events of default which require remediation. The directors have kept the lenders and, where relevant, the lenders' guarantor fully informed of the group's financial position and the progress on resolving the accounting difficulties described above. As a result, the directors are currently in advanced, constructive discussions with lenders to the group and their guarantor for a continuation of current facilities and agreement of revised lending covenants and obligations. Although Highway (Burnley) Limited is not a subsidiary that is directly required to comply with such obligations, it is reliant on Craegmoor Limited's successful conclusion to these negotiations in order to continue operating normally for the foreseeable future.

Whilst the directors are confident that facilities of the Group will be renewed, and the covenants and obligations renegotiated, and believe that it is therefore appropriate for the financial statements to be prepared on the going concern basis, a conclusion to these negotiations has not been reached as the date of approval of this report.

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

1 Principal accounting policies (continued)

Tangible fixed assets

The cost of fixed assets is their purchase cost, and any costs directly attributable to bringing them into working condition for their intended use. Freehold land and buildings are revalued by independent, professionally qualified valuers on a five year rolling basis, the first such valuation being five years after acquisition. These valuations are carried out on an existing use, open market value basis, and in the intervening years are updated by the directors with the assistance of independent professional advice as required.

Increases in the revalued amounts of land and buildings are credited to revaluation reserves.

Freehold land is not depreciated. Subsequent to a revaluation depreciation on freehold properties is based on revalued amounts. Depreciation on other tangible fixed assets is calculated to write off their cost, less estimated residual values, by equal annual instalments on the following bases:

Freehold buildings	-over 50 years
Building improvements	-over 20 years
Equipment	-over 7 years
Furniture and fittings	-over 3, 5 or 10 years
Motor vehicles	-over 4 years
Computer equipment	-over 4 years

During the year, a review was performed of the appropriateness of asset lives resulting in the revised lives shown above. The effect of this change on the depreciation charge for the year was not deemed to be material to the financial statements.

Provision is made for any impairment in the period in which it arises. The impairment is calculated by comparing the carrying value to the recoverable amount as required by FRS 11, "Impairment of fixed assets and goodwill". The recoverable amount of land and buildings is taken to be the higher of realisable value and value in use. Value in use is determined by reference to the expected future cash flows of the care home, discounted at a risk adjusted weighted cost of capital of 8.5% (2003: 8.5%). Realisable value is determined by independent, professional valuers on an existing use, open market value basis.

Provisions for impairment in the carrying value of land and buildings are charged against revaluation reserves in the balance sheet to the extent that they relate to a reversal of prior increases. Impairments to below historical cost are charged to the profit and loss account.

Corporation tax

UK corporation tax is provided at amounts expecting to be paid (or recovered) using the tax rates and bases that have been enacted or substantially enacted by the balance sheet date. Corporation tax payable is reduced wholly or in part by the surrender of losses by fellow group companies. Payments made, if any, to surrendering companies for losses are reflected in the tax charge.

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is only recognised to the extent that the transfer of economic benefits in the future is deemed to be more likely than not. *Deferred tax assets and liabilities recognised are not discounted.*

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

1 Principal accounting policies (continued)

Finance leases

Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period end. Assets held under finance leases are depreciated over the shorter of the lease terms, and the useful lives of equivalent owned assets.

Cash flow statement

The Company is a wholly owned subsidiary of Craegmoor Limited, and the cash flows of the Company are included in the consolidated group cash flow statement of that company. Consequently, the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

2 Turnover

Turnover, which excludes Value Added Tax, consists entirely of fee income for care services provided in the year in the United Kingdom.

3 Related party transactions

The Company has taken advantage of the exemption granted under paragraph 3 (c) of FRS 8 and not disclosed any transactions with other group companies where they are more than 90% owned by a common parent.

4 Directors' emoluments

The emoluments of the directors were paid by Craegmoor Healthcare Company Limited, a fellow subsidiary of Craegmoor Limited. The directors were also directors of a number of other fellow subsidiaries during the year ended 31 December 2004 and 31 December 2003 and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the emoluments of the directors are disclosed within the accounts of Craegmoor Healthcare Company Limited.

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

5 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
Analysis by function	Number	Number
Nursing	10	11
Administration	2	2
	12	13

Comparative figures have been reanalysed to show employees by function as the directors consider this gives a more meaningful disclosure. The numbers disclosed include both full time and part time staff.

	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	157	35
Social security costs	14	3
	171	38

6 Operating profit

	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	£'000	£'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets:		
- Owned	25	4
- Held under hire purchase contracts	25	7
Auditors' remuneration – Audit	2	7

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

7 Tax on profit on ordinary activities

	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	£'000	£'000
Current taxation		
UK corporation tax at 30% (10 weeks ended 31 December 2003: 30%)	32	4
Adjustment in respect of previous periods	1	-
Total current taxation	33	4
Deferred taxation		
Current year – origination and reversal of timing differences	(4)	(2)
Adjustment in respect of previous periods	-	-
Total deferred taxation	(4)	(2)
Tax charge	29	2

The tax for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	52 weeks ended 31 December 2004	10 weeks ended 31 December 2003
	£'000	£'000
Profit on ordinary activities	78	8
Profit on ordinary activity multiplied by standard rate of corporation tax in the UK of 30% (10 weeks ended 31 December 2003: 30%)	23	2
Effects of:		
Expenses not deductible for tax purposes	5	-
Capital allowances for the year in excess of depreciation	4	2
Adjustments to tax charge in respect of previous periods	1	-
Current tax charge	33	4

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

8 Tangible fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 1 January 2004	984	42	103	1,129
Additions	-	9	-	9
At 31 December 2004	984	51	103	1,138
Accumulated depreciation				
At 1 January 2004	3	31	50	84
Charge for the year	18	7	25	50
At 31 December 2004	21	38	75	134
Net book value				
At 31 December 2004	963	13	28	1,004
At 31 December 2003	981	11	53	1,045

The land and buildings, fixtures and fittings and motor vehicles were valued at 18 October 2003 by the directors at £1,054,000 on the basis of their existing use, using professional advice received by independent property advisors. This resulted in an increase in carrying value of £868,000, credited to the revaluation reserve. There being no valuation surplus on fixtures and fittings or motor vehicles, the total surplus on revaluation has been attributed to land and buildings.

The directors consider that there has been no material change in value since 18 October 2003 and therefore the valuation has not been amended.

If freehold land and buildings had not been revalued they would have been included at the following amounts:

	2004 £'000	2003 £'000
Cost	128	128
Aggregate depreciation based on cost	(16)	(13)
Net book value based on cost	112	115

The net book value of fixed assets held under finance leases and hire purchase contracts, included above are as follows:

	2004 £'000	2003 £'000
Motor Vehicles	28	53

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

9 Debtors

	2004	2003
	£'000	£'000
Amounts falling due within one year		
Trade debtors	-	36
Amounts owed by group undertakings	91	-
Other debtors	-	14
	91	50
Amounts falling due after more than one year		
Deferred taxation (Note 12)	6	2
	97	52

As at 31 December 2004 current assets were transferred to Craegmoor Facilities Company No.2 Limited, a Craegmoor group company, at no gain or loss. These balances are included in amounts owed by group undertakings. They are interest free and are payable on demand.

10 Creditors: amounts falling due within one year

	2004	2003
	£'000	£'000
Trade creditors	-	3
Obligations under finance leases and hire purchase contracts	15	22
Corporation tax payable	1	10
Amounts owed to group undertakings	111	150
Other creditors	-	7
	127	192

As at 31 December 2004 current liabilities were transferred to Craegmoor Facilities Company No.2 Limited, a Craegmoor group company, at no gain or loss. These balances are included in amounts owed by group undertakings. They are interest free and are payable on demand.

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

11 Creditors: amounts falling due after more than one year

	2004	2003
	£'000	£'000
Obligations under finance leases and hire purchase contracts	4	15
Finance leases repayable as follows:		
In one year or less	15	22
In more than one year but less than two years	4	13
In more than two years but less than five years	-	2
	19	37

Obligations under finance leases are secured by charges over the assets to which they relate.

12 Deferred taxation

Deferred tax assets	£'000
At 1 January 2004	2
Credited in the profit and loss account	4
At 31 December 2004	6

	2004	2003
	£'000	£'000
The amount recognised for deferred taxation comprises:		
Timing differences relating to accelerated capital allowances	6	2

13 Called up share capital

	2004	2003
	£'000	£'000
Authorised		
1,000 (2003: 1,000) ordinary shares of £1 each	1	1
Allotted, called up and fully paid		
2 (2003: 2) ordinary shares of £1 each	-	-

Highway (Burnley) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

14 Reserves

	Profit and loss account	Revaluation reserve
	£'000	£'000
At 1 January 2004	53	868
Profit for the financial year	49	-
At 31 December 2004	102	868

15 Reconciliation of movement in shareholders' funds

	2004	2003
	£'000	£'000
Profit for the financial year / period	49	6
Unrealised gains on revaluation of properties during the year (Note 8)	-	868
Net increase in shareholders' funds	49	874
Opening equity shareholders' funds	921	47
Closing equity shareholders' funds	970	921

16 Capital commitments and contingent liabilities

As at 31 December 2004 the Company had no capital commitments or contingent liabilities (2003: £Nil).

17 Immediate and ultimate parent companies

The directors regard Cranley Limited, a company registered in England and Wales, as the immediate parent company of Highway (Burnley) Limited, and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom. Copies of the Craegmoor Limited's consolidated financial statements may be obtained its registered office, Craegmoor House, Perdiswell Park, Worcester, WR3 7NW.