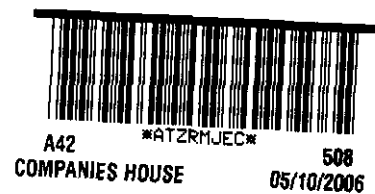


Highway (Burnley) Limited

Annual Report

for the year ended 31 December 2005

Registered number: 2693859



# Highway (Burnley) Limited

## Annual report for the year ended 31 December 2005

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# **Highway (Burnley) Limited**

## **Directors and advisors**

### **Executive directors**

Ted Smith  
Denise Keating  
Julian Spurling  
Christine Cameron  
Charles Cameron  
Peter Cavanagh

### **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 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

### 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. Following this transfer, the Company has retained only fixed assets and associated leases, intercompany balances and tax balances. Revenue is recognised by the Company in accordance with its accounting policy (see note 1 to the financial statements), although the sales ledger balances arising are transferred to Craegmoor Facilities Company No.2 Limited, who also retain the risk with respect to bad and doubtful amounts. Craegmoor Facilities Company No.2 Limited also charges the Company a management fee for administering its working capital and employees. As such, the Company only recognises turnover, management charges, depreciation, amortisation, property rental charges, interest and tax charges in its profit and loss account.

### Results and dividends

The profit and loss account shows a profit after tax for the year of £40,000 (2004: £49,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: £Nil).

### Directors and their interests

The following directors have held office since 1 January 2005:

Ted Smith		
Margaret Hill	Appointed 8 February 2005	Resigned 7 April 2006
Denise Keating	Appointed 6 March 2006	
Julian Spurling	Appointed 6 March 2006	
Carol Andrews	Resigned 8 February 2005	
Christine Cameron	Appointed 21 December 2005	
Charles Cameron	Appointed 15 March 2006	
Peter Cavanagh	Appointed 1 July 2006	

No director had any share interests in respect of Highway (Burnley) Limited.

Ted 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 at 31 December 2005 had any interest in the share capital of Craegmoor Limited.

No directors, other than those listed below, held any share options over the ordinary share capital of Craegmoor Limited.

	31 December 2005	1 January 2005*
Christine Cameron	1,750	1,750
Margaret Hill	4,000	4,000

\* At date of appointment if later

These share options have an exercise price of £1 each and may be exercised on the sale of Craegmoor Limited by its current shareholders.

### 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 2005 (continued)

### Financial instruments

The Company's financial instruments primarily comprise debtors and creditors with other group companies arising directly from its operations. No trading in financial instruments has been undertaken.

There are no significant risks arising directly from the Company's financial instruments. However, the Company is reliant on the ongoing support of the Craegmoor Group, which has long term financing and overdraft facilities in place. The Board of Craegmoor Limited, the ultimate parent undertaking, has reviewed and agreed the policies for managing the risks related to these facilities as set out below:

#### *Liquidity and credit risk:*

The Group has secured long term financing and overdraft facilities with financial institutions who have high credit ratings that are designed to ensure the Company has sufficient available funds for operations. The £320,148,000 of debt, in the form of loan notes, is repayable over 18 years.

#### *Interest rate and cash flow risk:*

The Group has entered into interest rate swaps to ensure certainty over future interest cash flows. As a consequence, 94% of the Group's borrowings are at fixed rates of interest.

### Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the 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 confirm that they have complied with the above requirements in preparing the financial statements.

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

PricewaterhouseCoopers LLP have indicated their willingness to remain in office and a resolution to re-appoint them as auditors will be proposed at the Annual General Meeting.

By order of the Board



**Charles Cameron**  
Director  
28 September 2006

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

We have audited the financial statements of Highway (Burnley) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

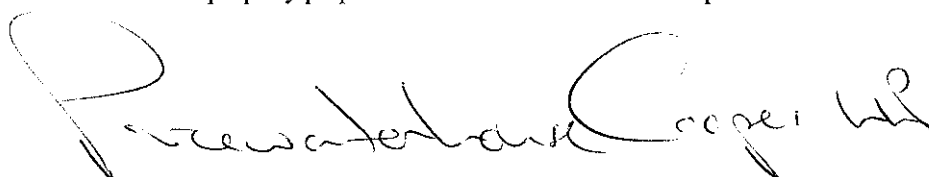
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Birmingham  
28 September 2006

## Highway (Burnley) Limited

### Profit and loss account for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Turnover	2	334	366
Cost of sales		-	(182)
<b>Gross profit</b>		<b>334</b>	<b>184</b>
Administrative expenses		(256)	(106)
<b>Operating profit on ordinary activities before taxation</b>	6	<b>78</b>	<b>78</b>
Tax on profit on ordinary activities	7	(38)	(29)
<b>Retained profit for the financial period</b>	14	<b>40</b>	<b>49</b>

All activities relate to continuing operations.

The Company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

## Highway (Burnley) Limited

### Note of historical cost profit and losses for the year ended 31 December 2005

	2005	2004
	£'000	£'000
Reported profit on ordinary activities before taxation	78	78
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	14	15
<b>Historical cost profit on ordinary activities before taxation</b>	<b>92</b>	<b>93</b>
<b>Historical cost profit for the period after taxation</b>	<b>54</b>	<b>64</b>

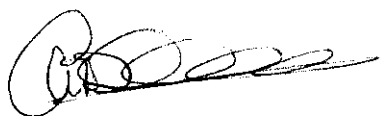


# Highway (Burnley) Limited

## Balance sheet as at 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Tangible assets	8	963	1,004
<b>Current assets</b>			
Debtors	9	105	97
		105	97
Creditors: amounts falling due within one year	10	(58)	(127)
<b>Net current assets / (liabilities)</b>		<b>47</b>	<b>(30)</b>
<b>Total assets less current liabilities</b>		<b>1,010</b>	<b>974</b>
Creditors: amounts falling due after more than one year	11	-	(4)
<b>Net assets</b>		<b>1,010</b>	<b>970</b>
<b>Capital and reserves</b>			
Called up share capital	12	-	-
Revaluation reserve	13	868	868
Profit and loss account	13	142	102
<b>Total equity shareholders' funds</b>	14	<b>1,010</b>	<b>970</b>

The financial statements on pages 5 to 15 were approved by the board of directors on 28 September 2006 and signed on its behalf by:



**Charles Cameron**  
Director

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005

### 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 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.

The directors took extensive actions to assess the full recoverability of trade debtors, and full provision was made where amounts were determined not to be collectible. Nonetheless, some uncertainty remained at the date the 2004 financial statements were approved by the Board in December 2005. Consequently, the Company did not maintain complete records relating to the allocation of sales transactions and cash receipts during the year ended 31 December 2004. However, by virtue of the transfer of trade debtor balances to another group company before the year-end, the uncertainty was removed from the company balance sheet. The report of the auditors for the year ended 31 December 2004 made reference to the failure to maintain proper accounting records as required by Section 221 of the Companies Act 1985 in respect solely of the allocation of sales transactions and cash receipts.

In 2005 and 2006 further significant progress has been made with key reconciliations now being performed and cash being correctly allocated to the sales ledger. The Company is now maintaining adequate accounting systems which enable it to account for transactions on a day-to-day basis. Further work is ongoing to improve still further the processes within the Shared Service Centre.

#### Going Concern

In the refinancing (note 16), the funders of the business agreed to waivers of past covenant breaches or to periods of time to enable remedial action to be taken. The directors believe that subsequent covenants have been met and the Company has adequate financial resources. The accounts have therefore been prepared on a going concern basis.

#### Changes in accounting policies

The company has adopted FRS 21 "Events after the Balance Sheet date", FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 28 "Corresponding Amounts" in these financial statements.

The adoption of these standards represents a change in accounting policy although its adoption has no impact on the loss for the year or net assets.

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005 (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% (2004: 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.

#### 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.

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 2 Turnover

Turnover represents amounts invoiced and accrued for services provided during the period, excluding Value Added Tax. Where services are invoiced in advance the related income is deferred to match the period in which the service is provided.

### 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 2005 and 31 December 2004 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.

### 5 Employee information

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

	2005	2004
Analysis by function	Number	Number
Nursing	-	10
Administration	-	2
	-	12

On 31 December 2004, the company's employee contracts were transferred from the company to a fellow subsidiary undertaking, Craegmoor Facilities Company Limited. As such, the directors consider that the company did not have any employees during the year.

	2005	2004
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	-	157
Social security costs	-	14
	-	171

# Highway (Burnley) Limited

## Notes to the financial statements

for the year ended 31 December 2005 (continued)

### 6 Operating profit

	2005	2004
	£'000	£'000
<b>Operating profit is stated after charging:</b>		
Depreciation of tangible fixed assets:	49	50
Auditors' remuneration – Audit	-	2
Management charge from fellow subsidiary	223	-

The audit fee of £1,000 for the Company for the year ended 31 December 2005 is borne by a fellow subsidiary company and included within the management charge.

The management charge from fellow subsidiary undertaking, Craegmoor Facilities No. 2 Company Limited, relates to an allocation of operating costs incurred on behalf of the Company and its fellow subsidiaries.

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 7 Tax on profit on ordinary activities

	2005 £'000	2004 £'000
<b>Current taxation</b>		
UK corporation tax at 30% (2004: 30%)	38	32
Adjustment in respect of previous periods	-	1
<b>Total current taxation</b>	<b>38</b>	<b>33</b>
<b>Deferred taxation</b>		
Current year – origination and reversal of timing differences	-	(4)
<b>Total deferred taxation</b>	<b>-</b>	<b>(4)</b>
<b>Tax charge</b>	<b>38</b>	<b>29</b>

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

	2005 £'000	2004 £'000
<b>Profit on ordinary activities</b>	<b>78</b>	<b>78</b>
Profit on ordinary activity multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	23	23
Effects of:		
Expenses not deductible for tax purposes	5	5
Capital allowances for the year in excess of depreciation	10	4
Adjustments to tax charge in respect of previous periods	-	1
<b>Current tax charge</b>	<b>38</b>	<b>33</b>

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 8 Tangible fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost or valuation</b>				
At 1 January 2005	984	51	103	1,138
Additions	-	8	-	8
<b>At 31 December 2005</b>	<b>984</b>	<b>59</b>	<b>103</b>	<b>1,146</b>
<b>Accumulated depreciation</b>				
At 1 January 2005	21	38	75	134
Charge for the year	16	7	26	49
<b>At 31 December 2005</b>	<b>37</b>	<b>45</b>	<b>101</b>	<b>183</b>
<b>Net book value</b>				
<b>At 31 December 2005</b>	<b>947</b>	<b>14</b>	<b>2</b>	<b>963</b>
At 31 December 2004	963	13	28	1,004

The land and buildings, fixtures and fittings and motor vehicles were valued at 18 October 2004 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 2004 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:

	2005 £'000	2004 £'000
Cost	128	128
Aggregate depreciation based on cost	(18)	(16)
<b>Net book value based on cost</b>	<b>110</b>	<b>112</b>

# Highway (Burnley) Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 9 Debtors

	2005 £'000	2004 £'000
<b>Amounts falling due within one year</b>		
Amounts owed by group undertakings	99	91
<b>Amounts falling due after more than one year</b>		
Deferred taxation	6	6
	<b>105</b>	<b>97</b>

The deferred tax asset relates to depreciation in excess of capital allowances.

Amounts owed by group undertakings are interest free and are payable on demand.

### 10 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Obligations under finance leases and hire purchase contracts	-	15
Corporation tax payable	-	1
Amounts owed to group undertakings	58	111
	<b>58</b>	<b>127</b>

Amounts owed to group undertakings are interest free and are payable on demand.

### 11 Creditors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Obligations under finance leases and hire purchase contracts	-	4

### 12 Called up share capital

	2005 £'000	2004 £'000
<b>Authorised</b>		
1,000 (2004: 1,000) ordinary shares of £1 each	1	1
<b>Allotted, called up and fully paid</b>		
2 (2004: 2) ordinary shares of £1 each	-	-



## Highway (Burnley) Limited

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 13 Reserves

	Profit and loss account £'000	Revaluation reserve £'000
At 1 January 2005	102	868
Profit for the financial year	40	-
At 31 December 2005	142	868

#### 14 Reconciliation of movement in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	40	49
Net increase in shareholders' funds	40	49
Opening equity shareholders' funds	970	921
Closing equity shareholders' funds	1,010	970

#### 15 Capital commitments and contingent liabilities

As at 31 December 2005 the Company had no capital commitments or contingent liabilities (2004: £Nil).

#### 16 Post balance sheet events

On 13 March 2006 the Craegmoor Group completed a refinancing exercise with the injection of £8.25m from shareholders following the issue of new loan notes. The capital injection was used to refinance group companies. In addition the Borrower Security Trustee of the securitisation arrangements, to which the Company is a party, agreed to waive past breaches or to provide a period of time in which breaches must be remedied. The Company has complied with the obligations attaching to the waivers.

#### 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 at its registered office, Craegmoor House, Perdiswell Park, Worcester, WR3 7NW.