



Annual Report and Financial Statements Alpha Schools (Highland) Project Plc

For the Year Ended 31 January 2009



Company No. 05516176

Company information

Company registration number	05516176
Registered office	Cowley Business Park Cowley Uxbridge Middlesex UB8 2AL
Directors	R Christie R S Fullerton A S Richards
Secretary	P Money
Bankers	Royal Bank of Scotland Plc 142-144 Princes Street Edinburgh EH2 4EQ
Independent Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1-4 Atholl Crescent Edinburgh EH3 8LQ

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Report of the directors

The directors submit their annual report and the audited financial statements for the year ended 31 January 2009.

Business review and principal activities

The Company's principal activity is to finance the activities of Alpha Schools (Highland) Limited, a Special Purpose Company that has been established to enter into a Private Finance Initiative ("PFI") contract with The Highland Council. The PFI contract involves the design, build and financing of eleven primary and secondary schools together with the provision of certain facilities management services within these schools.

On 6 April 2006, the Company issued fixed rate bonds of £81,405,210 and borrowed a fixed rate loan from the European Investment Bank ("EIB") of £60,000,000. The proceeds raised in respect of the bonds and loan (less debt issue costs) have been lent to Alpha Schools (Highland) Limited under the terms of an On-Loan Agreement to enable it to carry out its obligations under the PFI contract. The same terms that apply to the Company in respect of the bonds and loan also apply to Alpha Schools (Highland) Limited.

The principal risk facing the Company is the inability to meet its obligations in respect of interest and principal repayments on the bonds and EIB loan. A Financial Guarantee provided by Ambac Assurance UK Limited ("Ambac") is in place to manage this risk. Under the terms of the Guarantee, Ambac unconditionally and irrevocably agrees to pay all sums due and payable by the Company in the event that the Company fails to pay.

In order to meet its contractual obligations, the Company is dependent on receipt of funds from Alpha Schools (Highland) Limited and therefore is dependent on the successful operation of Alpha Schools (Highland) Limited and the PFI contract in general. The contractual arrangements for the PFI contract have however been structured to minimise the risks retained by Alpha Schools (Highland) Limited and there are various security and contractual arrangements in place to protect Alpha Schools (Highland) Limited from default or non-performance by any sub-contractors. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany On-Loan Agreements.

The Company has not since its date of incorporation carried on any business or activities other than incidental to the financing of Alpha Schools (Highland) Limited.

Both the Company and Alpha Schools (Highland) Limited are wholly owned subsidiaries of Alpha Schools (Highland) Holdings Limited. Alpha Schools (Highland) Holdings Limited is owned fifty per cent by Morrison Education (Highland) Limited (a subsidiary of Galliford Try Plc) and fifty per cent by Northern Infrastructure Investments LLP (a joint venture between Noble Group Holdings Limited and 3i Infrastructure Limited).

Future developments

The directors do not anticipate any change in the Company's activities.

Report of the directors (continued)

Results and dividends

The profit for the year amounted to £Nil (2008: £Nil).

The directors do not recommend payment of a dividend in respect of the year (2008: £Nil).

Financial risk management objectives

The directors' approach to financial risk management objectives and exposures have been set out in note 9 of these financial statements.

Summary of key performance indicators

The directors have monitored the progress of the overall company strategy and the individual strategic elements by reference to the following financial indicator.

	2009	2008	Method of calculation
	£	£	
Net debt	149,206,915	138,704,313	Total net debt at balance sheet date

As the Company is primarily a financing vehicle, there are no relevant non-financial key performance indicators.

Directors and their interests

The directors of the Company who held office during the year and to date are as follows:

R Christie
R S Fullerton
A S Richards

In accordance with the Company's Articles of Association, none of its directors are required to retire. None of the directors who held office at the beginning or end of the year had any interests in the shares of the Company.

Directors' responsibilities

The directors are responsible for preparing the Annual 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 financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

Report of the directors (continued)

Directors' responsibilities (continued)

- 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
- 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 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.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Post balance sheet event

On 9 February 2009, the Company received a further £2,428,446 in the form of subordinated loan notes from Alpha Schools (Highland) Holdings Limited. In addition, on 23 June 2009, the Company received a further £2,428,446 in the form of subordinated loan notes from Alpha Schools (Highland) Holdings Limited. These funds have been on-loaned to Alpha Schools (Highland) Limited.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD



A S Richards

Director

3 July 2009

Registered in England - No. 05516176
Registered Office
Cowley Business Park
High Street
Cowley
Uxbridge
Middlesex
UB8 2AL

Corporate governance statement

The Company has listed securities in issue and as such is required to disclose its compliance with the provisions set out in the Combined Code on Corporate Governance. The Company is committed to applying the highest principles of corporate governance, as they relate to the Company's business. Due to the size and restricted nature of the Company's business, there are certain areas of the Combined Code where the directors consider that full compliance would not be justified.

The Board and its directors

The Company is led by a Board of directors. The appointment of the directors is pursuant to a Shareholders' Agreement dated 29 March 2006 and under the terms of this Agreement, both Morrison Education (Highland) Limited ("MEHL") and Northern Infrastructure Investments LLP ("NII") are entitled to appoint two directors to the Board of the Company.

Two directors are currently appointed by MEHL and one director is appointed by NII. Each director is entitled to appoint an Alternate Director for the purposes of attending a specific board meeting.

Each director is of equal standing. Due to the size and nature of the Company, there is no appointed chairman or chief executive. There is also no distinction drawn between executive and non-executive directors. As such the Company does not comply with Provisions A.1.2, A.1.3, A.2 and A.3 of the Combined Code.

The Board ensures that each director has arranged appropriate insurance cover in respect of legal action against him or herself. The Company does not arrange this insurance which is not in compliance with Provision A.1.5.

The Board acknowledges that it is collectively responsible for the success of the company by providing leadership, setting the company's strategic aims, ensuring that the necessary financial and human resources are in place, and reviewing management performance.

In order to discharge these responsibilities, the Board meet on a regular basis throughout the year. Since the commencement of the PFI contract in April 2006, the Board has held monthly Management Meetings at which it discusses the activities of the Company, Alpha Schools (Highland) Limited and Alpha Schools (Highland) Holdings Limited. In addition the Board holds a semi-annual Board Meeting. The Management and Board Meetings are also attended by key members of the project's management team. The table below indicates the number of meetings held and the number of meetings attended by each director.

	Board	Management
Number of meetings held in the year	2	11
R Christie	2	11
R S Fullerton	2	11
A S Richards	2	10

Corporate governance statement (continued)

The Board and its directors (continued)

All directors receive appropriate and timely information and briefing papers in advance of the Management and Board Meetings. Whilst day to day management of the Company is delegated to the management team, there is a formal schedule of matters reserved for decision by the Board. These include such matters as the provision of guarantees or indemnities in respect of any liability, entering into any other financing facility, approval of the annual budget or engaging in any other activity.

Appointments to the Board are made in line with the Shareholders' Agreement. There is no Nomination Committee and therefore the Company does not comply with Provision A.4 of the Code.

Due to the size and nature of the Company, the Board does not undertake a formal annual evaluation of its performance and that of its directors and there is no formal policy on re-election of directors. Consequently, the Company does not comply with Provisions A.6 and A.7 of the Code. The directors however ensure that the Board is structured in such a way that each member of the Board is able to bring different experiences and skills to the operation of the Company and encourages and supports each director to regularly update and refresh their skills and knowledge.

Remuneration

None of the directors receive any remuneration as directors of the Company. There is therefore no remuneration policy or procedure and no Remuneration Committee. The Company has therefore not complied with Provisions B.1 or B.2 of the Combined Code.

Accountability and audit

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects. There is no Audit Committee as the size and nature of the Company does not warrant such a committee. The company therefore does not comply with Provision C.3 of the Combined Code. The Board itself maintains a relationship with the external auditors which allows it to monitor their objectivity, independence and cost-effectiveness.

Internal control

The Board has applied principle C.2 of the Combined Code by establishing a process for identifying, evaluating and managing the significant risks the Company faces. The Board annually reviews the process, which has been in place from the start of the year to the date of approval of this report. However, due to the size and nature of the Company's business, this process is not in compliance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision C.2.1 of the Combined Code, the Board reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing financial and operational reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

Corporate governance statement (continued)

Internal control (continued)

The Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant during the course of its review of the system of internal control. Therefore a confirmation in respect of necessary actions has not been considered appropriate. Due to the size and nature of the Company, the Board does not consider there to be a requirement for an Internal Audit Function although the requirement for this is considered annually.

Going concern

The directors are required under the Combined Code on Corporate Governance to have satisfied themselves as to the Company's ability to continue in existence for the foreseeable future. This has been carried out and the directors have concluded that the Group has adequate resources and is justified in using the going concern basis in preparing the financial statements.

Dialogue with shareholders

The Company is a wholly owned subsidiary of Alpha Schools (Highland) Holdings Limited although one nominee share is held by Morrison Education (Highland) Limited. Dialogue with the ultimate parent undertaking and controlling parties is managed through the monthly management meetings, six-monthly board meetings and the Annual General Meeting ("AGM").

All Directors attend the AGM, and shareholders have the opportunity to question any member of the Board on any relevant topic. Each substantial issue raised is proposed as an individual resolution of the AGM and voted on.



Report of the independent auditor to the members of Alpha Schools (Highland) Project Plc

We have audited the financial statements of Alpha Schools (Highland) Project Plc for the year ended 31 January 2009 which comprise the principal accounting policies, the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the directors and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.



Report of the independent auditor to the members of Alpha Schools (Highland) Project Plc

Basis of 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 January 2009 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.


GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Edinburgh

6 July 2009

Profit and loss account

	Note	2009 £	2008 £
Interest receivable	3	7,885,077	7,081,470
Interest payable and similar charges	3	(7,885,077)	(7,081,470)
Profit on ordinary activities before taxation		<u>-</u>	<u>-</u>
Taxation	4	-	-
Result for the year		<u>-</u>	<u>-</u>


All activities are continuing.

There is no difference between the profit on ordinary activities before taxation and the result for the year stated above and their historic cost equivalents.

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

Balance sheet

	Note	2009 £	2008 £
Fixed asset investments			
Loans to fellow subsidiary undertakings	5	149,256,915	138,754,313
Current assets			
Debtors – amounts falling due within one year	6	314,864	-
Current liabilities			
Creditors – amounts falling due within one year	7	(314,864)	-
Net current assets		-	-
Total assets less current liabilities		149,256,915	138,754,313
Creditors - amounts falling due after more than one year	8	(149,206,915)	(138,704,313)
Net assets		50,000	50,000
Capital and reserves			
Called-up share capital	10	50,000	50,000
Equity shareholders' funds	11	50,000	50,000



A S Richards
 Director

The directors approved the financial statements on 3 July 2009.

Notes to the financial statements (continued)

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards (United Kingdom Generally Accepted Accounting Practice). A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Cash flow statement

The Company is exempt from the requirement of FRS 1 (Revised) to prepare a cash flow statement as its results are included in the consolidated financial statements of Alpha Schools (Highland) Holdings Limited which includes a cash flow statement.

Taxation

The current tax charge is based on the profit for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantively enacted by the balance sheet date. Current tax is recognised in the profit and loss account for the period.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are subsequently recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss account. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the profit and loss account on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

Financial assets

All financial assets are categorised as loans and receivables. Financial assets are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Inter-company debtors are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Provision against inter-company debtors is made when there is objective evidence that the company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken at least at each balance sheet date.

Notes to the financial statements (continued)

2 Operating profit

None of the directors received any remuneration as directors from the Company during the year. The Company has no directly employed personnel.

Audit fees of £9,000 (2008: £9,000) and other administration expenses are borne by Alpha Schools (Highland) Limited, a fellow subsidiary undertaking.

3 Interest payable and similar charges (net)

	2009	2008
	£	£
Interest payable on bonds and secured loans	(7,106,163)	(7,081,470)
Interest payable on loans due to Alpha Schools (Highland) Holdings Limited	(778,914)	-
Interest receivable on loans made to Alpha Schools (Highland) Limited	7,885,077	7,081,470
Finance costs net	-	-

4 Taxation

The results for the year do not give rise to a tax charge (2008: £Nil).

5 Fixed asset investments

	2008	2007
	£	£
Amounts owed by Alpha Schools (Highland) Limited	149,206,915	138,704,313
Amounts owed by Alpha Schools (Highland) Holdings Limited	49,999	49,999
Amounts owed by Morrison Education (Highland) Limited	1	1
	<u>149,256,915</u>	<u>138,754,313</u>

Loans to fellow subsidiary undertakings are considered to be fixed asset investments as they are intended for use on a continuing basis in the company's activities. The directors consider such loans to be held for the long term over the life of the related debt.

Amounts owed by Alpha Schools (Highland) Limited comprise senior debt facilities of £138,818,765 and subordinated debt facilities of £10,388,150.

Senior debt facilities comprise a loan which is made up of the proceeds of the issue of £81,405,210 of fixed rate bonds and a £60,000,000 fixed rate loan from the European Investment Bank ("EIB"). The loans are stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £1,248,038 (2008: £1,271,511). The Company has lent the proceeds of both the bond and EIB loan to Alpha Schools (Highland) Limited on the same terms as those applicable to the Company.

During the year, the Company received £10,388,150 in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited. The proceeds of the loan notes have been lent to Alpha Schools (Highland) Limited on identical terms.

Notes to the financial statements (continued)

6 Debtors - amounts falling due within one year

	2009	2008
	£	£
Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes	314,864	-

The above interest was received in full by the Company on 9 February 2009.

7 Creditors - amounts falling due within one year

	2009	2008
	£	£
Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes	314,864	-

The above interest was paid in full by the Company on 9 February 2009.

8 Creditors - amounts falling due after more than one year

	2008	2007
	£	£
Borrowings:		
Fixed rate secured bonds	79,874,895	79,808,946
Secured bank term loans	58,943,870	58,895,367
Amounts owed to Alpha Schools (Highland) Holdings Limited	10,388,150	-
	<u>149,206,915</u>	<u>138,704,313</u>
Repayable as follows:		
Less than one year	1,323,303	-
Between one and two years	3,197,462	1,308,058
Between two and five years	10,574,291	9,314,531
After five years	134,111,859	128,081,724
Total borrowings	<u>149,206,915</u>	<u>138,704,313</u>

The undiscounted contractual maturities are repayable as follows:

Less than one year	1,323,303	-
Between one and two years	3,179,462	1,308,058
Between two and five years	10,574,291	9,314,531
After five years	136,338,304	130,782,621
Total borrowings	<u>151,433,360</u>	<u>141,405,210</u>

Notes to the financial statements (continued)

8 Creditors - amounts falling due after more than one year (continued)

Fixed rate senior guaranteed secured bonds due in 2036 of £100,400,000 were created on 6 April 2006. Of this £81,400,000 were issued and sold at a market value of £81,405,210. The Company has £19,000,000 variation bonds which may be used to finance certain variations within the PFI contract. The bonds are repayable in semi-annual instalments commencing on 31 January 2010 and ending on 31 January 2036. Interest on the bonds is also payable semi-annually at a rate of 4.792% per annum and payments commenced on 31 July 2006.

The secured bank term loan is from the European Investment Bank. Principal repayments are made semi-annually commencing on 31 January 2010 and ending on 31 January 2035. Interest on the loan is also payable semi-annually at the rate of 4.58% per annum and payments commenced on 31 July 2006.

Payments in respect of both the bonds and EIB loan are guaranteed by Ambac Assurance UK Limited which unconditionally and irrevocably guarantees to pay all sums due and payable by the Company in the event that the Company fails to pay. The cost of this guarantee is treated as a direct cost of finance by the Company.

The fixed rate senior guaranteed bonds and the secured bank term loan are each stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £1,248,038 (2008: £1,271,511). These costs together with the interest expense are allocated to the profit and loss account over the term of the loans. Interest is calculated using the effective interest rate method.

During the year, the Company received £10,388,150 in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited.

The Company has a commitment to receive a further £4,856,891 of subordinated loan notes from Alpha Schools (Highland) Holdings Limited by 6 July 2009 (which the Company will, in turn, lend on to Alpha Schools (Highland) Limited).

Interest is payable on the loan notes at a rate of 12.9% and the loan notes are repayable on an annuity basis beginning on 31 January 2010 and ending on 31 July 2036.

The borrowings are secured by a fixed charge over the assets of the Company, an assignment of all rights under the legal agreements to which the Company is a party and a floating charge over all the Company's undertakings and assets which have not been effectively secured by way of a fixed charge or assignment. The carrying value of the Company's secured assets (including those of its fellow subsidiary) at the balance sheet date was £154,451,426 (2008: £143,858,865).

The Company, Alpha Schools (Highland) Holdings Limited and Alpha Schools (Highland) Limited have granted a joint and several guarantee in respect of each other's obligations under the senior finance documents. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany Onloan Agreements.

Notes to the financial statements (continued)

9 Financial instruments

The Company's financial instruments comprise borrowings and loans receivable. The sole purpose of these financial instruments is to raise finance for the operations of Alpha Schools (Highland) Limited. The Company has not entered into derivative transactions. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments be undertaken. The main risk arising from the Company's financial instruments is credit risk. The Board's policy for managing this risk is summarised below.

The company's financial instruments are summarised as follows:

	2009	2008
	£	£
Financial assets		
Loans and receivables	10,703,014	-
Held to maturity investments	138,868,765	138,754,313
	<u>149,571,779</u>	<u>138,754,313</u>
Financial liabilities		
Other creditors	314,864	-
Measured at amortised cost	149,206,915	138,704,313
	<u>149,521,779</u>	<u>138,704,313</u>

Credit risk

The Company is dependent on receipt of funds from Alpha Schools (Highland) Limited in order to meet its contractual obligations. In turn, Alpha Schools (Highland) Limited is dependent on receipt of funds from The Highland Council in return for the delivery of services. The directors consider credit risk to be very low due to the fact that The Highland Council is a local authority and therefore public sector funded.

The Company is committed to subscribing for a further £4.8m of loan notes in Alpha Schools (Highland) Limited, upon receipt of the funds from a similar subscription in the Company by Alpha Schools (Highland) Holdings Limited. The directors consider the credit risk attached to these loans notes to be low as Alpha Schools (Highland) Limited will service the loan from receipt of funds from The Highland Council.

In order to further manage credit risk, the directors have ensured that there are contractual arrangements in place to minimise the risks retained by Alpha Schools (Highland) Limited (for example in respect of performance and availability deductions which are principally passed on to that company's sub-contractors) and to protect it from default or other non-performance by any of its sub-contractors. As credit risk is considered to be minimal, a sensitivity analysis of the exposure has not been performed.

The Company, Alpha Schools (Highland) Holdings Limited and Alpha Schools (Highland) Limited have granted a joint and several guarantee in respect of each other's obligations under the senior finance documents. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany Onloan Agreements.

Notes to the financial statements (continued)

9 Financial instruments (continued)

Interest rate risk

The Company has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest. Although current market interest rates are currently below the fixed rate of interest, this is not considered to be a risk given that the income being received by Alpha Schools (Highland) Limited to service repayment of the borrowings is also fixed.

Liquidity risk

This risk is managed via the funding contracts into which the Company has entered. The repayment profiles of the debt and loan commitments are set out in note 8 above. In addition, the back to back lending arrangement with Alpha Schools (Highland) Limited ensures that liquidity risk within the Company is minimised.

Foreign currency risk

The Company has no foreign currency transactions. All of the Company's borrowings are denominated in sterling.

Interest rate profile

The interest rate profile of the Company's financial liabilities was as follows:

	2009 £	2008 £
Fixed rate borrowings	<u>149,206,915</u>	<u>138,704,313</u>

The fixed rate bonds have interest payable at 4.792% and the bank loan has fixed rate interest payable at 4.58%. The subordinated loan notes have interest payable at 12.9%.

Borrowing facilities

	Drawn £	Undrawn £	Total £
Variation bonds	-	<u>19,000,000</u>	<u>19,000,000</u>

The Company has the above undrawn borrowing facilities at 31 January 2009, expiring 2036, which are subject to various conditions.

Notes to the financial statements (continued)

9 Financial instruments (continued)

Fair values

Set out below is a comparison of book values and fair values of the Company's financial instruments.

	Fair Value 2009 £	Fair Value 2008 £	Book Value 2009 £	Book Value 2008 £
Financial assets:				
Loans to fellow subsidiary undertakings	134,348,294	131,560,347	149,206,915	138,704,313
Fixed asset investments	50,000	50,000	50,000	50,000
At 31 January 2009	<u>134,398,294</u>	<u>131,610,347</u>	<u>149,256,915</u>	<u>138,754,313</u>
Financial liabilities:				
Fixed rate secured bonds	62,025,018	70,590,080	79,874,895	79,808,946
Secured bank term loan	61,968,126	60,970,267	58,943,870	58,895,367
Subordinated loan notes	10,355,150	-	10,388,150	-
At 31 January 2009	<u>134,348,294</u>	<u>131,560,347</u>	<u>149,206,915</u>	<u>138,704,313</u>

The fair value of the loans to fellow subsidiary undertakings is based on the market value of similar debt instruments at 31 January 2009. The terms of the loans to fellow subsidiaries are fixed therefore no adjustment has been made to reduce the book value to fair value. The cost of the fixed asset investments approximates fair value.

The fair value of the fixed rate secured bond is based on its market value at 31 January 2009. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 4.78% (2008: 4.946%). The terms of both the loan and the bond are fixed therefore no adjustment has been made to reduce the book value to fair value.

Capital risk management

The Company's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company is highly geared, consistent with similarly structured PFI investment companies. The risk of interruption of cash inflows by the Company (which are required to repay the debt) is low due to these ultimately being receivable from the public sector. The gearing ratios at 31 January 2009 and 31 January 2008 were as follows:

	2009 £	2008 £
Fixed rate secured bonds and secured bank term loan	138,818,765	138,704,313
Equity plus subordinated loan notes	10,438,150	50,000
Total capital	<u>149,256,915</u>	<u>138,754,313</u>
Gearing ratio	<u>93%</u>	<u>99%</u>

The Company has complied with all externally imposed capital requirements during the year.

Notes to the financial statements (continued)

10 Called up share capital

	2009 £	2008 £
Authorised 50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, issued and fully paid 50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

11 Reconciliation of movement in shareholders' funds

	2009 £	2008 £
Opening shareholders' funds	50,000	50,000
Result for the financial year	-	-
Closing shareholders' funds	<u>50,000</u>	<u>50,000</u>

There has been no movement in shareholders' funds during the year.

Notes to the financial statements (continued)

12 Related party transactions

Alpha Schools (Highland) Project Plc has issued £81,405,210 bonds and borrowed £60,000,000 from the European Investment Bank. These funds have been on-loaned, less debt issue costs, to Alpha Schools (Highland) Limited. The amount outstanding at the year end from Alpha Schools (Highland) Limited in respect of the bonds was £79,874,895 (2008: £79,808,946) and in respect of the European Investment Bank loan was £58,943,870 (2008: £58,895,367).

During the year, the Company received £10,388,150 in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited.

The relationship between Alpha Schools (Highland) Project Plc and Alpha Schools (Highland) Limited is described in the Report of the Directors.

13 Post balance sheet events

On 9 February 2009, the Company received a further £2,428,446 in the form of subordinated loan notes from Alpha Schools (Highland) Holdings Limited. In addition, on 23 June 2009, the Company received a further £2,428,446 in the form of subordinated loan notes from Alpha Schools (Highland) Holdings Limited. These funds have been on-loaned to Alpha Schools (Highland) Limited.

14 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Alpha Schools (Highland) Holdings Limited which is incorporated in Great Britain and registered in England and Wales. Copies of Alpha Schools (Highland) Holdings Limited consolidated financial statements can be obtained from the Company Secretary at Cowley Business Park, High Street, Cowley, Uxbridge, Middlesex, UB8 2AL.

One ordinary share is held by Morrison Education (Highland) Limited which is incorporated in Great Britain and registered in England and Wales. The Directors consider the ultimate controlling parties to be Galliford Try Plc, Noble Group Holdings Limited and 3i Infrastructure Limited.