Grant Thornton

Annual Report and Consolidated Financial Statements Alpha Schools (Highland) Holdings Limited

For the Year Ended 31 January 2009

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COMPANIES HOUSE

Company No. 05508168

Officers and professional advisers

Company registration number	05508168
Registered office	Cowley Business Park Cowley Uxbridge Middlesex UB8 2AL
Directors	J Boags R Christie R S Fullerton A S Richards
Secretary	P Money
Bankers	Royal Bank of Scotland Plc Edinburgh West End Office 142 - 144 Princes Street EH2 4EQ
Independent Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1-4 Atholl Crescent Edinburgh EH3 8LQ

Contents

Report of the directors

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

Business review and principal activities

The Company is a Special Purpose Company whose sole business is to act as a holding company for Alpha Schools (Highland) Limited and Alpha Schools (Highland) Project Plc (together "the Group").

Alpha Schools (Highland) Limited entered into a Private Finance Initiative ("PFI") contract with The Highland Council on 6 April 2006 to design, build and finance eleven primary and secondary schools and provide certain facilities management services within these schools.

As part of this contract, Alpha Schools (Highland) Limited has also entered into a fixed-price, date certain sub-contract with Morrison Construction Limited to design and build the schools. The construction term is approximately 41 months after which time the schools will be made available to The Highland Council following a pre-determined phased programme. Construction is expected to be complete by July 2009.

The PFI project has been financed primarily by the issue of fixed rate bonds of £81,405,210 and a loan facility provided by the European Investment Bank ("EIB") of £60,000,000. These funds were received during the year ended 31 January 2007. The proceeds of both the bond issue and loan facility have been lent to Alpha Schools (Highland) Limited by Alpha Schools (Highland) Project Plc, a Special Purpose Company established to issue the debt and enter into the main finance documents of the contract.

The first school was made available to The Highland Council on 26 March 2007 and the term of the PFI contract is 30 years from this date. The Group receives service payments from The Highland Council for each school as it becomes available. During the year ended 31 January 2009, the main construction work in respect of all schools was completed, and service payments are now being received for all eleven schools. The Group has therefore generated turnover of £10,477,986 (2008: £2,101,985) during the current financial year. The external works and grass playing fields for the secondary schools are currently being progressed, completion of which is scheduled for July 2009. The construction and other related costs of building have been treated as a financial asset which will be repaid over the life of the contract.

The principal risk facing the Group 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 Alpha Schools (Highland) Project Plc in the event that Alpha Schools (Highland) Project Plc fails to pay.

In order to meets its contractual obligations, Alpha Schools (Highland) Project Plc 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.

Report of the directors (continued)

Future developments

The directors do not anticipate any changes in the Group's activities. The remaining external works and grass pitches will be completed and handed over to The Highland Council as programmed. All construction work is expected to be complete by July 2009.

Summary of key performance indicators

The directors have monitored the progress of the overall Group strategy and the individual strategic elements by reference to certain financial and non-financial indicators.

	2009	2008	**Method of calculation**
Net debt	**£143,883,183**	£115,766,173	Total net debt at balance sheet date
Target Service Availability Dates Achieved	**77%**	100%	Percentage of Project Facilities completed on or before respective Service Availability Date at balance sheet date

Results and dividends

The results for the year are set out on page 9. The profit for the year amounted to £1,979,468 (2008: £676,283) and has been transferred to reserves. The directors do not recommend payment of a dividend in respect of the year (2008: £Nil).

Directors and their interests

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

A S Richards
R S Fullerton
J Boags
R Christie

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.

Report of the directors (continued)

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 the 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 Group and the Company and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 January 2009 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial risk management objectives and policies

The Group's financial risk management objectives and exposures have been set out in note 13 of these financial statements.

Post balance sheet events

Since the year end, under the main PFI contract between Alpha Schools (Highland) Limited and The Highland Council, the external works in respect of four secondary schools have been completed and handed over to The Highland Council.

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

Report of the directors (continued)

Auditor and disclosure of information to auditor

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group's auditor is unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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. 05508168
Registered Office
Cowley Business Park
High Street, Cowley
Uxbridge
Middlesex UB8 2AL

Grant Thornton

Report of the independent auditor to the members of Alpha Schools (Highland) Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Alpha Schools (Highland) Holdings Limited for the year ended 31 January 2009 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement and the related notes 1 to 23. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 are 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 read other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the directors. 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) Holdings Limited (continued)

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 group'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 group's and parent company's affairs as at 31 January 2009 and of the group's profit 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

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Edinburgh

6 July **2009**

Group profit and loss account

	Note	2009 £	2008 £
Turnover		**10,477,986**	2,101,985
Cost of sales		**(2,185,379)**	(372,797)
Gross profit		**8,292,607**	1,729,188
Administration expenses		**(599,171)**	(154,272)
Operating profit	2	**7,693,436**	1,574,916
Net interest payable	3	**(4,948,106)**	(605,930)
Profit on ordinary activities before taxation		**2,745,330**	968,986
Taxation	4	**(765,862)**	(292,703)
Retained profit for the year	16	**1,979,468**	676,283

Statement of retained earnings

	2009 £	2008 £
Opening balance	**643,533**	(32,750)
Retained profit for the year	**1,979,468**	676,283
Balance at 31 January	**2,623,001**	643,533

All activities are continuing.

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

The Group has no recognised gains and losses other than the profit for the year above and therefore no separate statement of total recognised gains and losses has been presented.

Group and company balance sheet

		Group		Company	
		2009	2008	2009	2008
	Note	£	£	£	£
Investments	7	-	-	**50,099**	50,099
Current assets					
Financial asset	8	**146,814,027**	119,509,249	-	-
Debtors - amounts falling due within one year	9	**1,898,161**	1,446,737	**314,864**	-
Debtors - amounts falling due after more than one year	10	**395,158**	-	**10,438,150**	50,000
Cash at bank and in hand		**5,323,731**	10,049,878	**1,009,050**	-
Restricted cash - amounts falling due within one year	11	-	12,888,262	-	-
		154,431,077	143,894,126	**11,762,064**	50,000
Current liabilities					
Creditors - amounts falling due within one year	12	**(2,551,062)**	(4,203,477)	**(1,373,913)**	(49,999)
Net current assets		**151,880,015**	139,690,649	**10,388,151**	1
Total assets less current liabilities		**151,880,015**	139,690,649	**10,438,250**	50,100
Creditors - amounts falling due after more than one year	13	**(149,206,914)**	(138,704,313)	**(10,388,150)**	-
Provisions for liabilities and charges	14	-	(292,703)	-	-
Net assets		**2,673,101**	693,633	**50,100**	50,100
Capital and reserves					
Called up share capital	15	**50,100**	50,100	**50,100**	50,100
Profit and loss reserve		**2,623,001**	643,533	-	-
Equity shareholders' funds	16	**2,673,101**	693,633	**50,100**	50,100

Andrew Richards
A S Richards
Director

The directors approved the financial statements on 3 July 2009.

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

Group cash flow statement

	Note	2009 £	2008 £
Operating activities			
Net cash outflow from operating activities	17	**(20,461,713)**	(57,794,043)
Returns on investments and servicing of finance			
Interest paid		**(7,908,719)**	(7,099,022)
Interest received		**367,873**	2,777,632
Net cash outflow before use of liquid resources and financing		**(28,002,559)**	(62,115,433)
Management of liquid resources			
Decrease in deposit in Guaranteed Investment Contract		**12,888,262**	58,993,167
Financing			
Issue of subordinated loan notes		**10,388,150**	-
Decrease in cash	18	**(4,726,147)**	(3,122,266)

Notes to the financial statements

1 Principal accounting policies

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Basis of consolidation

The group accounts comprise a consolidation of the accounts of the Company and all of its subsidiaries for the year ended 31 January 2009. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The Company has no associates or joint ventures.

Investments

Investments in the subsidiary undertakings are stated at cost. The carrying value of investments is reviewed annually by the directors to determine whether there has been any impairment.

Financial asset

Construction and related costs of building the schools are being treated as a financial asset (contract debtor) under the terms of FRS 5 Application Note F – Private Finance Initiative and Similar Contracts. The financial asset will be repaid over the life of the contract as service income is received from The Highland Council.

Upon becoming operational, the income derived from the PFI contract is allocated between the provision of the asset and the provision of the subsequent services. Upon acceptance of the constructed asset by Highland Council, the financial asset is amortised over the life of the contract against the relevant portion of the contracted income.

Deferred taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Deferred taxation has been recognised as a liability or asset if transactions have incurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

Financial liabilities

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Turnover

Turnover consists of service income and finance debtor interest receivable by the Company under the terms of its contract with The Highland Council, less any performance and availability deductions incurred. Turnover is earned wholly within the UK and is exclusive of VAT.

Liquid resources

Liquid resources are defined as restricted cash held on behalf of the Company by Royal Bank of Canada and released to the Company under the terms of an agreement with that entity (see note 11).

2 Operating profit

None of the directors received any remuneration as directors from the Group or Company during the year. Neither the Group nor the Company has any directly employed personnel. The profit on ordinary activities is stated after charging auditors' remuneration of £27,000 (2008: £26,250). Non-audit services in respect of taxation services for the year amounted to £8,750 (2008: £7,750). Non-audit services in respect of financial modelling amounted to £25,000 (2008: Nil).

3 Interest payable and similar charges

	2009	2008
	£	£
Interest receivable on Guaranteed Investment Contract (see note 8)	**92,880**	2,018,896
Bank interest receivable	**274,993**	758,736
Interest payable on bonds and secured loans	**(7,106,163)**	(7,081,470)
Interest payable to shareholders on subordinated loan notes	**(778,914)**	-
Other finance costs payable	**(23,643)**	(17,552)
	(7,540,847)	(4,321,390)
Transferred to financial asset	**2,592,741**	3,715,460
	(4,948,106)	(605,930)

Notes to the financial statements (continued)

4 Taxation

	2009	2008
	£	£
Tax on profit on ordinary activities comprises:		
UK Corporation tax at 28.33% (2008: 30%)	**777,694**	-
Adjustments in respect of previous periods	**280,871**	-
Total current tax	**1,058,565**	-
Deferred tax (note 14):		
Origination and reversal of timing differences	-	292,703
Prior year adjustment	**(292,703)**	-
Total deferred tax	**(292,703)**	292,703
Tax on profit on ordinary activities	**765,862**	292,703

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2009	2008
	£	£
Profit on ordinary activities before tax	**2,745,330**	968,986
Profit on ordinary activities at the standard UK rate of tax of 28.33% (2008 - 30%)	**777,694**	290,696
Effects of:		
Repayment of finance debtor	-	32,740
Relief for capitalised interest	-	(1,792,667)
Unrelieved losses (utilised) /carried forward	-	1,469,231
Adjustments in respect of prior periods	**280,871**	
Current tax charge for the year	**1,058,565**	-

5 Dividends

No dividends were paid in respect of the financial year (2008: £Nil).

6 Result of parent company

Alpha Schools (Highland) Holdings Limited has not presented its own profit and loss account, as permitted by section 230 of the Companies Act 1985. The result for the financial year dealt with in the accounts of the parent company was £Nil (2008: £Nil).

Notes to the financial statements (continued)

7 Investments

The company

	£
Shares in subsidiary undertaking	
cost	
At 1 February 2008 and at 31 January 2009	50,099

Principal subsidiary undertakings

The company has investments in the following subsidiary undertakings:

Name	Activity	Country of Incorporation	Shareholding	Capital & Reserves	Profit
Alpha Schools (Highland) Limited	PFI concession company	Great Britain	100%	£2,650,822	£2,007,189
Alpha Schools (Highland) Project Plc	PFI concession company	Great Britain	100%	£50,000	£Nil

8 Financial asset

	Group		Company	
	2009	2008	**2009**	2008
	£	£	**£**	£
Cost				
Brought forward	**119,618,382**	57,828,177	**-**	-
Additions during the year:				
Interest payable and other financing costs (net)	**2,592,741**	3,715,460	**-**	-
Construction and related costs	**25,585,321**	58,074,745	**-**	-
At 31 January	**147,796,444**	119,618,382	**-**	-
Amortisation				
Brought forward	**(109,133)**	-	**-**	-
Charge for year	**(873,284)**	(109,133)	**-**	-
At 31 January	**(982,417)**	(109,133)	**-**	-
Net Value				
At 31 January	**146,814,027**	119,509,249	**-**	-

Notes to the financial statements (continued)

9 Debtors - amounts falling due within one year

	Group		Company	
	2009	2008	**2009**	2008
	£	£	**£**	£
Trade debtors	**1,622,354**	371,395	**-**	-
Prepayments	**152,064**	345,534	**-**	-
Other debtors	**123,743**	-		
VAT recoverable	**-**	729,808	**-**	-
Interest due from Alpha Schools (Highland) Project Plc on subordinated loan notes	**-**	-	**314,864**	-
	1,898,161	1,446,737	**314,864**	-

Trade debtors are all due within one year (2008: £57,702 was due in more than one year). Other debtors are due from The Highland Council.

10 Debtors - amounts falling due after more than one year

	Group		Company	
	2009	2008	**2009**	2008
	£	£	**£**	£
Other debtors	**395,158**	-	**-**	-
Amounts due from Alpha Schools (Highland) Limited	**-**	-	**50,000**	50,000
Amounts due from Alpha Schools (Highland) Project Plc	**-**	-	**10,388,150**	-
	395,158	-	**10,438,150**	50,000

The Group
Other debtors are due from The Highland Council.

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

11 Restricted cash

Restricted cash represented amounts held in a fixed interest rate Guaranteed Investment Contract (GIC) on behalf of the Group by Royal Bank of Canada. The GIC was funded by the net proceeds of the bond issue and the European Investment Bank loan. Royal Bank of Canada will make certain scheduled payments from the GIC to the Group's ordinary bank account during the anticipated construction period. All amounts held in the GIC have now been released.

Notes to the financial statements (continued)

12 Creditors - amounts falling due within one year

	Group		Company	
	2009	2008	**2009**	2008
	£	£	**£**	£
Trade creditors	**343,094**	404,133	**-**	-
Other creditors and accruals	**716,977**	3,799,344	**-**	-
Accrued subordinated loan note interest owed to shareholders	**314,864**	-	**314,864**	
Corporation tax	**1,058,565**	-	**-**	-
VAT payable	**118,062**	-	**-**	-
Amounts owed to Alpha Schools (Highland) Limited	**-**	-	**1,009,050**	-
Amounts owed to Alpha Schools (Highland) Project plc	**-**	-	**49,999**	49,999
	2,551,062	4,203,477	**1,373,913**	49,999

13 Creditors - amounts falling due after more than one year

	Group		Company	
	2009	2008	**2009**	2008
	£	£	**£**	£
Borrowings:				
Fixed rate secured bonds	**79,874,894**	79,808,946	**-**	-
Secured bank term loans	**58,943,870**	58,895,367	**-**	-
Subordinated loan notes	**10,388,150**	-	**10,388,150**	-
	149,206,914	138,704,313	**10,388,150**	-
Repayable as follows:				
Less than one year	**1,323,303**	-	**15,245**	-
Between one and two years	**3,197,462**	1,308,058	**170,744**	-
Between two and five years	**10,574,291**	9,314,531	**1,015,320**	-
After five years	**134,111,858**	128,081,724	**9,186,841**	-
	149,206,914	138,704,313	**10,388,150**	-

The Group

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 contingencies or changes 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 ("EIB"). 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.

Notes to the financial statements (continued)

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

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 Group in the event that the Group fails to pay. The cost of this guarantee is treated as a direct cost of finance by the Group.

During the year, the Group received £10,388,150 in the form of fixed rate subordinated loan notes from its shareholders. 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 Company has a commitment to receive a further £4,856,891 of subordinated loan notes from shareholders by 6 July 2009 (see Notes 21 and 22).

The liabilities are each stated at amortised cost, using the effective interest rate method and are net of unamortised debt issue costs of £1,248,038 (2008: £1,271,511).

The borrowings are secured by a fixed charge over all the issued shares in Alpha Schools (Highland) Limited and Alpha Schools (Highland) Project Plc, an assignment of all rights of the Company under the Finance Agreements to which it is a party and a floating charge over the whole of the Company's undertaking and assets which have not been effectively secured by way of a fixed charge or assignment.

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

The Group has not entered into derivative transactions. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risk arising from the Group's financial instruments is liquidity risk. The Board's policy for managing this risk is summarised below.

Credit risk

The Group is dependent on receipt of funds from The Highland Council in return for the delivery of services. Credit risk is low due to the fact that The Highland Council is a local authority and therefore public sector funded. Further, there are contractual arrangements in place to minimise the risks retained by the Group and to protect it from default or non-performance by any of its sub-contractors.

Interest rate risk

The Group has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest.

Liquidity risk

The Group's policy throughout the year has been, in order to ensure continuity of funding, that substantially all of its borrowings should mature in more than one year.

Foreign currency risk

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

Notes to the financial statements (continued)

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

Interest rate profile

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

	2009	2008
	£	£
Fixed rate borrowings	149,206,914	138,704,313

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%.

The Company

During the year, the Company received £10,388,150 in the form of fixed rate subordinated loan notes from its shareholders. Interest is payable on the loan notes at a fixed 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 Company has a commitment to receive a further £4,856,891 of subordinated loan notes from shareholders by 6 July 2009 (see Notes 21 and 22).

14 Provision for liabilities and charges

Deferred taxation

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
The deferred tax recognised at 28% (2008 - 28%) is as follows:				
Other timing differences	-	1,673,156	-	-
Unrelieved losses carried forward	-	(1,380,453)	-	-
Carried forward	-	292,703	-	-

The deferred tax not recognised at 28% (2008 - 28%) is as follows:

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
Brought forward	-	9,825	-	-
Movement in year		(9,825)	-	-
Carried forward	-	-	-	-
Unrelieved losses carried forward	-	-	-	-
Unrecognised deferred tax asset	-	-	-	-

Notes to the financial statements (continued)

15 Called up share capital

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Authorised				
50,100 ordinary shares of £1 each	**50,100**	50,100	**50,100**	50,100
	50,100	50,100	**50,100**	50,100
Allotted, issued and fully paid				
50,100 ordinary shares of £1 each	**50,100**	50,100	**50,100**	50,100
	50,100	50,100	**50,100**	50,100

16 Reconciliation of movement in shareholders' funds

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Opening shareholders' funds	**693,633**	17,350	**50,100**	50,100
Profit for financial year	**1,979,468**	676,283	-	-
Closing shareholders' funds	**2,673,101**	693,633	**50,100**	50,100

17 Reconciliation of group operating profit to net cash outflow from operating activities

	2009 £	2008 £
Operating profit	**7,693,436**	1,574,916
Decrease in creditors	**(3,465,363)**	(1,631,751)
(Increase)/ decrease in debtors	**(92,200)**	135,913
Increase in financial asset	**(24,712,037)**	(57,965,612)
Other non-cash changes (see note 18)	**114,451**	92,491
Net cash outflow from operating activities	**(20,461,713)**	(57,794,043)

Notes to the financial statements (continued)

18 Reconciliation of group net cash flow to movement in net debt

	2009	2008
	£	£
Decrease in cash in year	**(4,726,147)**	(3,122,266)
Cash outflow from issue of subordinated loan notes	**(10,388,150)**	-
Cash outflow from decrease in liquid resources	**(12,888,262)**	(58,993,167)
Change in net debt resulting from cash flows	**(28,002,559)**	(62,115,433)
Other non-cash changes (see note 18)	**(114,451)**	(92,491)
Movement in net debt in the year	**(28,117,010)**	(62,207,924)
Opening net debt	**(115,766,173)**	(53,558,249)
Closing net debt	**(143,883,183)**	(115,766,173)

19 Analysis of change in group net debt

	1 February 2008	Cash flow	Non-cash changes	31 January 2009
	£	£	£	£
Cash in hand and at bank	10,049,878	(4,726,147)	-	**5,323,731**
Debt due after one year	(138,704,313)	(10,388,150)	(114,451)	**(149,206,914)**
Liquid resources	12,888,262	(12,888,262)	-	-
Total	(115,766,173)	(28,002,559)	(114,451)	**(143,883,183)**

Non-cash changes comprise the amortisation costs in respect of the EIB loan and fixed rate senior guaranteed secured bonds.

Notes to the financial statements (continued)

20 Related party transactions

The Group's related parties, as defined by Financial Reporting Standard 8, and the extent of transactions with them during the year ended 31 January 2009 are set out below.

	Purchases from related parties £	Amounts owed to related parties £
Galliford Try Investments Limited	197,869	-
3i Group plc	191,876	-
Morrison Construction Limited	26,240,854	686,435
Morrison Facilities Services Limited	2,484,255	330,533
Total	29,114,854	1,016,968

Comparative information for the year ended 31 January 2008 is set out below.

	Purchases from related parties £	Amounts owed to related parties £
Galliford Try Investments Limited	221,374	64,911
3i Group plc	191,876	-
Morrison Construction Limited	57,819,818	4,272,418
Morrison Facilities Services Limited	548,737	48,085
Total	58,781,805	4,385,414

There were no sales to or amounts owed by related parties at 31 January 2009 or 31 January 2008.

Galliford Try Investments Limited owns fifty per cent of the Company through its 100% subsidiary, Morrison Education (Highland) Limited. Galliford Try Investments Limited provides concession management services to the Group.

3i Group Plc owns fifty percent of the Company through its investment vehicle, Northern Infrastructure Investments LLP and also provides management services to the Group.

Morrison Construction Limited is a wholly owned subsidiary of Galliford Try Plc and has entered into a building sub-contract with Alpha Schools (Highland) Limited.

Morrison Facilities Services Limited is owned 100% by AWG Plc which in turn is owned by a private consortium, Osprey, comprising of Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management and 3i Group Plc.

Notes to the financial statements (continued)

21 Commitments

Under the terms of an Equity Subscription Agreement dated 6 April 2006, the Group has a commitment to receive from Morrison Education (Highland) Limited and Northern Infrastructure Investments LLP, further subordinated loan notes of £4,856,891 (2008: £15,245,041) by 6 July 2009. Interest will be payable on the loan notes at a rate of 12.9% and the loan notes will be repayable on an annuity basis beginning on 31 January 2010 and ending on 31 July 2036.

22 Post balance sheet events

Since the year end, under the main PFI contract between Alpha Schools (Highland) Limited and The Highland Council, the external works in respect of four secondary schools have been completed and handed over to The Highland Council.

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

23 Ultimate parent undertaking

The Company is owned fifty percent by Morrison Education (Highland) Limited, a company registered in England and Wales, and fifty percent by Northern Infrastructure Investments LLP, a limited liability partnership 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.