

# Alpha Schools (Highland) Project Plc

Annual report and financial statements

For the year ended 31 January 2007

Registered number 05516176



# **Alpha Schools (Highland) Project Plc**

## **Report of the Directors**

The directors submit their annual report and the audited financial statements for the year ended 31 January 2007

### **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.

During the year, 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 subsidiary of 3i Group Plc).

### **Future developments**

The directors do not anticipate any changes in the Company's activities. Under the terms of the PFI Contract between Alpha Schools (Highland) Limited and The Highland Council, the schools will be completed and handed over to The Highland Council following a phased programme which commenced on 26 March 2007. Full facilities management services will also commence on each school as they are completed and handed over.

### **Results and dividend**

The profit for the year amounted to £Nil (2006: £Nil).

The directors do not recommend payment of a dividend in respect of the year (2006: £Nil).

### **Supplier payment policy**

The Company's policy is to pay suppliers thirty days from the date of receipt of the supplier's agreed invoice, unless otherwise contractually agreed, and this policy is made known to all suppliers on request. Trade creditors of the company as at 31 January 2007 were £Nil (2006: £Nil).

# Alpha Schools (Highland) Project Plc

## Report of the Directors (continued)

### Financial risk management objectives

The Directors' approach to financial risk management objectives and exposures have been set out in note 7 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 certain financial and non-financial indicators

	2007	2006	Method of calculation
Net debt (£'000)	138,612	-	Total net debt at balance sheet date

### Directors and their interests

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

J Boags (appointed 29 September 2006, resigned 31 October 2006)

P N Bottrill (resigned 6 July 2006)

R Christie

R S Fullerton (appointed 6 July 2006)

J E Philipsz (resigned 29 September 2006)

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 the 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 company and of the profit or loss of the company 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 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 2007 and that applicable accounting standards have been followed.

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

## **Alpha Schools (Highland) Project Plc Report of the Directors (continued)**

### **Post balance sheet events**


Since the year end, under the main PFI contract between Alpha Schools (Highland) Limited and The Highland Council, four primary schools have been completed and handed over to The Highland Council on their target dates. Full facilities management services are now being provided in respect of these schools. All other schools within the project are on target for being completed and handed over on their respective programmed dates.

### **Auditors and disclosure of information to auditors**

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 Company's auditors in connection with preparing their report) of which the Company's auditors are 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 Company's auditors are 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 385 of the Companies Act 1985.

### **On behalf of the Board**



**A S Richards**  
**Director**  
**20 July 2007**

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

# Alpha Schools (Highland) Project Plc

## Corporate Governance Report

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. However, 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 meets 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 quarterly 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
<b>Number of meetings held in the year</b>	<b>4</b>	<b>9</b>
J Boags <sup>1</sup>	1	6
P N Bottrill <sup>2</sup>	0	2
R Christie	4	8
R S Fullerton	3	6
J E Philipsz <sup>3</sup>	0	0
A S Richards	2	6

1 J Boags resigned from the Board of the Company on 31 October 2006, but remains on the Boards of Alpha Schools (Highland) Limited and Alpha Schools (Highland) Holdings Limited.

2 P N Bottrill resigned from the Board on 6 July 2006.

3 J E Philipsz resigned from the Board on 29 September 2006.

# **Alpha Schools (Highland) Project Plc Corporate Governance Report (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.

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.

## **Alpha Schools (Highland) Project Plc Corporate Governance Report (continued)**

### **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, quarterly board meetings and the Annual General Meeting.

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.

## **Independent auditors' report 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 2007 which comprise the principal accounting policies, 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.

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 auditors**

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 Directors' Report 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 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 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 directors' report 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.

### **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.



## **Independent auditors' report to the members of Alpha Schools (Highland) Project Plc (continued)**

### **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 2007 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 Directors' Report is consistent with the financial statements



Grant Thornton UK LLP  
Chartered Accountants and Registered Auditors  
Glasgow

Date 24/7/07.

**Alpha Schools (Highland) Project Plc**  
**Profit and Loss Account**  
**For the year ended 31 January 2007**

	Notes	Year ended 2007	Period from 15 July 2005 to 31 January 2006
		£	£
Interest payable and similar charges	3	(5,875,092)	-
Interest receivable	3	5,875,092	-
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		-	-
Taxation	4	-	-
<b>Result for the year</b>	9	<hr/> <b>-</b>	<hr/> <b>-</b>

**Statement of retained earnings**

Opening balance	-	-
Result for the year	-	-
Balance at 31 January	<hr/> <b>-</b>	<hr/> <b>-</b>

All activities are continuing

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

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

**Alpha Schools (Highland) Project Plc**  
**Balance Sheet**  
**As at 31 January 2007**

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		£	£
<b>Fixed asset investments</b>			
Loans to fellow subsidiary undertakings	5	138,661,822	2
<b>Total assets less current liabilities</b>		<u>138,661,822</u>	<u>2</u>
Creditors – amounts falling due after one year	6	(138,611,822)	-
<b>Net assets</b>		<u><b>50,000</b></u>	<u><b>2</b></u>
<b>Capital &amp; reserves</b>			
Called-up share capital	8	50,000	2
<b>Equity shareholders' funds</b>		<u><b>50,000</b></u>	<u><b>2</b></u>



.....  
A S Richards  
Director

The directors approved the financial statements on 20 July 2007  
The notes on pages 11 to 18 form part of these financial statements

# **Alpha Schools (Highland) Project Plc**

## **Notes to the Financial Statements**

### **For the year ended 31 January 2007**

#### **1. Principal accounting policies**

##### **(a) 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.

FRS 25 (Financial Instruments Disclosure and Presentation) and FRS 26 (Financial Instruments Measurement) are required to be adopted by listed companies. The Company holds listed debt and has therefore prepared its accounts in accordance with FRS 25 and FRS 26.

FRS 25 requires the Company to provide certain disclosures in respect of its financial instruments and also governs the manner in which its financial instruments are presented.

FRS 26 provides the requirement for the measurement, recognition and de-recognition of financial instruments. Adoption of the standard results in the measurement of the Company's financial liabilities at amortised cost using the effective interest rate method.

FRS 26 has been applied for the first time this year. However, as the company was dormant in the prior year, there is no effect on the comparative information.

##### **(b) 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.

##### **(c) 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 and deferred tax is recognised in the profit and loss account for the period except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. A deferred tax 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.

# **Alpha Schools (Highland) Project Plc**

## **Notes to the Financial Statements**

### **For the year ended 31 January 2007**

#### **1. Principal accounting policies (continued)**

##### **(d) 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.

##### **(e) Financial assets**

All 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.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the company transfers substantially all the risks and rewards of ownership of the asset, or if the company neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

**Alpha Schools (Highland) Project Plc**  
**Notes to the Financial Statements**  
**For the year ended 31 January 2007**

**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 and other administration expenses are paid by Alpha Schools (Highland) Limited.

**3. Interest payable and similar charges (net)**

	Year ended 2007 £	Period from 15 July 2005 to 31 January 2006 £
Interest payable on bonds and secured loan	5,875,092	-
Interest receivable from Alpha Schools (Highland) Limited	(5,875,092)	-
Finance costs (net)	<u>-</u>	<u>-</u>

**4. Taxation**

The results for the year do not give rise to a tax charge (2006: £Nil).

**5. Fixed asset investments**

	2007 £	2006 £
Amounts owed by Alpha Schools (Highland) Limited	138,611,822	-
Amounts owed by Alpha Schools (Highland) Holdings Limited	49,999	-
Amounts owed by Morrison Education (Highland) Limited	1	-
Other debtors	-	2
	<u>138,661,822</u>	<u>2</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 represents 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 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. The loans are stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £1,365,400.

**Alpha Schools (Highland) Project Plc**  
**Notes to the Financial Statements**  
**For the year ended 31 January 2007**

**6. Creditors – amounts falling due after more than one year**

	2007 £	2006 £
Borrowings		-
Fixed rate secured bonds	79,757,891	-
Secured bank term loan	58,853,931	-
	<u>138,611,822</u>	<u>-</u>
Repayable as follows		
Less than one year	-	-
Between one and two years	-	-
Between two and five years	7,530,625	-
After five years	131,081,197	-
Total borrowings	<u>138,611,822</u>	<u>-</u>

Fixed rate senior guaranteed secured bonds due 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 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 £1,365,400. 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.

The borrowings are secured by a fixed charge over certain 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 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.

**Alpha Schools (Highland) Project Plc**  
**Notes to the Financial Statements**  
**For the year ended 31 January 2007**

**7. Financial instruments**

The Company's financial instruments comprise borrowings. 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 period 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 liquidity risk. The Board's policy for managing this risk is summarised below.

As permitted by FRS 25, short term debtors and creditors have been omitted from all fair value disclosures.

**Interest rate risk**

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

**Liquidity risk**

The Company'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 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:

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Fixed rate borrowings	138,611,822	-

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

**Maturity of financial liabilities**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Repayable		
Within one year	-	-
Between one and two years	-	-
Between two and five years	7,530,625	-
After five years	131,081,197	-
	<b>138,611,822</b>	<b>-</b>



**Alpha Schools (Highland) Project Plc**  
**Notes to the Financial Statements**  
**For the year ended 31 January 2007**

**7. Financial instruments (continued)**

***Borrowing facilities***

At 31 January 2007, the Company had the following committed facilities

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

The Company has undrawn committed borrowing facilities at 31 January 2007, in respect of which all conditions precedent had been met, as follows

	<b>2007</b> <b>£</b>
Expiring 2036	19,000,000

***Fair values***

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

	<b>Fair Value</b> <b>2007</b> <b>£</b>	<b>Fair Value</b> <b>2006</b> <b>£</b>	<b>Book Value</b> <b>2007</b> <b>£</b>	<b>Book Value</b> <b>2006</b> <b>£</b>
Fixed rate secured bonds	77,080,916	-	79,757,891	-
Secured bank term loan	60,231,034	-	58,853,931	-
	<u>137,311,950</u>	-	<u>138,611,822</u>	-

The fair value of the fixed rate secured bond is based on its market value at 31 January 2007  
The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 5.059%

**Alpha Schools (Highland) Project Plc**  
**Notes to the Financial Statements**  
**For the year ended 31 January 2007**

**8. Called up share capital**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
50,000 ordinary shares of £1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
<b>Allotted, issued and fully paid</b>		
50,000 ordinary shares of £1 each	50,000	2
	<u>50,000</u>	<u>2</u>

The Company was incorporated with authorised share capital of 50,000 ordinary shares of £1 each. On incorporation, one ordinary share was issued to Pinsent Masons Director Limited at par and one ordinary share was issued to Pinsent Masons Secretarial Limited at par.

On 28 March 2006, Pinsent Masons Director Limited transferred its holding of one ordinary share to Alpha Schools (Highland) Holdings Limited. On the same day, Pinsent Masons Secretarial Services transferred its holding of one ordinary share to Morrison Education (Highland) Limited.

On 28 March 2006, 49,998 shares were allotted to Alpha Schools (Highland) Holdings Limited. The nominal value of these shares was £49,998 and the consideration received was £49,998.

**9. Reconciliation of movement in shareholders' funds**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Opening shareholders' funds	2	-
Issue of equity shares	49,998	2
Profit for financial year	-	-
Closing shareholders' funds	<u>50,000</u>	<u>2</u>

## **Alpha Schools (Highland) Project Plc Notes to the Financial Statements For the year ended 31 January 2007**

### **10. 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 amounts outstanding at the year end from Alpha Schools (Highland) Limited in respect of the bonds was £79,757,891 and in respect of the European Investment Bank loan was £58,853,931.

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

### **11. Post balance sheet events**

Since the year end, under the main PFI contract between Alpha Schools (Highland) Limited and The Highland Council, four primary schools have been completed and handed over to The Highland Council on their target dates. Full facilities management services are now being provided in respect of these schools. All other schools within the project are on target for being completed and handed over on their respective programmed dates.

### **12. 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 Financial Holdings Limited and 3i Group Plc.