Alpha Plus group

the Gold Standard in education

Alpha Plus Holdings plc

Interim Group Financial Statements

For the six months ended 28 February 2019

Officers and registered office

Directors

Sir John Ritblat	Chairman
G G Able	Non-Executive Deputy Chairman
M D Hanley-Browne	Chief Executive Officer
M J Sample	Director of Finance
R D Jones	Director of Property
E M Francis	Director of Education
J E Stephen	Director of Schools
T H P Haynes	Director of Senior Schools
P D Brereton	Director of HR
R Proscia	Director of Marketing
Dame Rosalind Savill	Non-Executive
C B Wagman	Non-Executive
S M Lancaster	Non-Executive

Secretary
J C Norton

Registered office
50 Queen Anne Street
London
W1G 8HJ

Interim Management Report

The Directors present their Interim Management Report and the unaudited condensed Group financial statements for the six months ended 28 February 2019.

Activities

The principal activity of the Group in the period under review continued to be the ownership and management of schools and colleges in the United Kingdom and the supply of educational services. Across the UK, the Group operates 13 independent schools, 3 stand-alone nursery schools and 3 sixth form colleges all of which, with the exception of 1 school, 2 colleges and one nursery school, are based in Central London. In addition to this, the Group operates one school, Wetherby-Pembridge, in New York City.

Review of business

The results for the six months ended 28 February 2019 show that the Group's recent expansion programme is beginning to bear fruit. Total revenue was 7% higher than in the equivalent period last year at £54.7m (2018: £51.2m) with operating costs rising by 2% to £52.2m (2018: £51.2m). Earnings before interest, tax, depreciation and amortisation (EBITDA) consequently increased to £2.5m (2018: £nil).

The increase in Group revenue reflects increases in pupil numbers in certain schools, in particular within the Wetherby group. It also reflects the annual fee increases and improved occupancy in the Group's student boarding accommodation, which is now effectively fully occupied.

In the sixth form colleges, international student numbers have increased this year and this positive trend has continued to date in the 2019-20 recruitment cycle.

However, the Group has also seen pupil numbers fall at three of its schools. The Group has responded by reducing fees in two of these schools for 2019-20 and is already seeing an increase in applications as a result. Numbers at Portland Place School have fallen largely due to the decision to phase out the sixth form over the next two years. The Group is now offering sixth form places at DLD College from September 2019 as an alternative.

As a consequence, total pupil/student numbers increased only marginally during the period to 4,330 (31 August 2018: 4,322).

Interim Management Report (continued)

Review of business (continued)

As in previous periods, reported EBITDA has again been impacted by additional operating costs incurred as the Group expands and creates additional capacity. Adjusting for the short term impact of these items results in underlying EBITDA as follows:

	6 Months to		Year to
	28/02/19	28/02/18	31/08/18
	£m	£m	£m
Reported EBITDA	2.5	-	2.7
Establishment of Wetherby Senior School	0.6	0.7	1.4
Relocation of Abbey College Cambridge	0.4	0.6	1.2
Relocation of DLD College	0.2	0.2	0.5
Expansion costs at Chepstow House School	-	0.2	0.3
Relocation of Falcons School for Girls	0.2	0.2	0.2
Establishment of St Anthony's School for Girls	-	0.1	0.1
Establishment of Wetherby-Pembridge School, New York	0.7	0.9	1.6
Non-recurring items			
Internal restructuring costs	-	-	0.3
Underlying EBITDA	**4.6**	**2.9**	**8.3**

At a pre-tax level, the Group generated a reduced loss of £4.2m in the period (2018: loss of £6.1m).

The Group held £5.0m of cash as at 28 February 2019 (2018: £5.1m). In December 2018, the Group drew down £7m of funds deposited with its shareholder to continue to finance capital expenditure, including that incurred in the six month period as well as later in the year.

The Group's policy is to carry property, plant and equipment at cost less accumulated depreciation. Many of the Group's freehold and leasehold properties form part of the security portfolios in respect of the Group's retail bonds. As such, they are subject to an annual professional valuation, the most recent of which was carried out in March 2019. Had the valuations included therein been reflected in the Group's financial statements, the net asset value would have increased by £120m less any attributable deferred tax liability.

As a consequence of the usual January intake of international students into the Group's sixth form colleges to commence 18-month A-Level programmes, and lower overheads in July and August, the Group again expects to generate improved results in the second half of the year. Second half year results will also benefit from income from third party education providers using the teaching and boarding facilities in the Group's sixth form colleges in the summer holidays.

The Directors do not recommend the payment of a dividend.

Interim Management Report (continued)

Pensions

Earlier this year, it was confirmed that employer contributions into the Teachers' Pension Scheme ("TPS") would increase from 16.48% to 23.6% of teachers' salaries with effect from 1 September 2019. This would increase the Group's pension costs by approximately £1.1m per annum. Following consultation with all affected employees, the Group has notified the TPS that all 13 of the Group's schools, which are registered establishments for Teachers' Pensions purposes, will withdraw from that scheme with effect from 31 August 2019.

All teachers who are active members of the TPS have been offered membership of the Group Personal Pension Plan, which already has nearly 600 employees including teaching staff at the six UK schools and colleges that do not participate in the TPS. The Group has undertaken to make employer contributions into the GPPP at the same rate as current employer contributions into the TPS (16.48% of salary) for a period of 10 years for these teachers.

Future developments

As a consequence of the significant expansion programme undertaken by the Group in recent years, the Board now anticipates continuing EBITDA growth in the forthcoming years. Current expectations are that total pupil and students numbers will increase by over 100 in September 2019.

The refurbishment of 47 Bryanston Square, London W1, adjacent to Wetherby Prep School, is now well advanced and is scheduled to complete this summer. This allows Wetherby Prep to expand by adding one additional form to each year group.

Whilst the Group's primary focus is on improving the trading performance of its existing schools and colleges, the Group does continue to look for opportunities to further expand its school and college portfolio both in the UK and overseas.

Board changes

Tim Haynes was appointed as Director of Senior Schools in October 2018.

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's performance remain those identified on page 6 and further described on page 42 of the Company's consolidated financial statements for the year ended 31 August 2018, a copy of which is available on the Group's website www.alphaplusgroup.co.uk.

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge:

1. The condensed Group interim results for the six months ended 28 February 2019 have been prepared in accordance with IAS34 "Interim Financial Reporting".
2. The Interim Management Report includes a true and fair review of the important events that have occurred during the first six months of the financial year.

This interim report was approved by the Board of Directors on 24 April 2019.

Mark Hanley-Browne
Chief Executive Officer

Mark Sample
Director of Finance

Condensed Group statement of comprehensive income

for the six months ended 28 February 2019

	Notes	6 Months to 28/02/19 £000	6 Months to 28/02/18 £000	Year to 31/08/18 £000
Revenue		54,674	51,207	104,470
Operating expenses	6	(52,214)	(51,187)	(101,784)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		2,460	20	2,686
Depreciation	10	(4,286)	(3,802)	(7,911)
Loss before interest and tax		**(1,826)**	**(3,782)**	**(5,225)**
Finance costs	7	(3,794)	(4,020)	(7,292)
Finance income	8	1,434	1,668	3,285
Loss before tax		**(4,186)**	**(6,134)**	**(9,232)**
Tax charge	9	-	-	(3,394)
Loss for the period		**(4,186)**	**(6,134)**	**(12,626)**
Exchange differences on translation of foreign operations		65	81	(113)
Total comprehensive deficit for the period		**(4,121)**	**(6,053)**	**(12,739)**

Condensed Group balance sheet

as at 28 February 2019

	Notes	28/02/19 £000	28/02/18 £000	31/08/18 £000
Assets				
Non-current assets				
Property, plant and equipment	10	142,975	139,877	142,416
Investment property	11	4,292	4,292	4,292
Intangible assets		2,238	2,238	2,238
Financial assets	12	4,235	4,085	4,357
Deferred tax assets		-	1,986	-
		153,740	152,478	153,303
Current assets				
Trade and other receivables	13	10,340	9,220	4,314
Other financial assets	12	34,875	45,133	42,067
Cash		4,980	5,134	9,923
		50,195	59,487	56,304
Total assets		**203,935**	**211,965**	**209,607**
Current liabilities				
Trade and other payables	14	53,688	53,175	55,688
Loans and borrowings	15	50,560	50,507	50,580
		104,248	103,682	106,268
Non-current liabilities				
Trade and other payables		7,800	7,197	7,511
Loans and borrowings	15	78,827	78,626	78,647
Deferred tax liabilities		1,407	-	1,407
		88,034	85,823	87,565
Total liabilities		**192,282**	**189,505**	**193,833**
Net assets		**11,653**	**22,460**	**15,774**
Equity attributable to equity shareholders				
Share capital		16	16	16
Foreign currency translation reserve		(36)	93	(101)
Retained earnings		11,673	22,351	15,859
Total equity		**11,653**	**22,460**	**15,774**

Condensed Group statement of changes in equity

for the six months ended 28 February 2019

	Issued capital	Foreign currency translation reserve	Retained earnings	Total equity
	£000	**£000**	**£000**	**£000**
As at 1 September 2018	16	(101)	15,859	15,774
Loss for the period	-	-	(4,186)	(4,186)
Other comprehensive income for the period	-	65	-	65
At 28 February 2019	**16**	**(36)**	**11,673**	**11,653**
As at 1 September 2017	**16**	**12**	**28,485**	28,513
Loss for the period	-	-	(6,134)	(6,134)
Other comprehensive income for the period		81	-	81
At 28 February 2018	**16**	**93**	**22,351**	**22,460**
At 1 September 2017	16	12	28,485	28,513
Loss for the year	**-**	**-**	(12,626)	(12,626)
Other comprehensive deficit for the year	-	(113)	-	(113)
At 31 August 2018	**16**	**(101)**	**15,859**	**15,774**

Condensed Group statement of cash flows

for the six months ended 28 February 2019

		Six months to		Year to
		28/02/19	28/02/18	31/08/18
	Notes	£000	£000	£000
Cash (consumed by) / generated from operations	18	(5,252)	2,109	12,532
Deposits received on operating leases		-	1,749	1,749
Net cash (outflow)/inflow from operating activities		**(5,252)**	**3,858**	**14,281**
Investing activities				
Additions of property, plant and equipment		(4,845)	(6,513)	(13,161)
Net cash outflow from investing activities		(4,845)	(6,513)	(13,161)
Financing activities				
Interest received		1,595	1,817	3,447
Interest paid		(3,450)	(3,467)	(6,915)
Income tax paid		-	-	(1)
Loan repaid by parent undertaking		7,000	3,200	6,200
Repayment of finance lease liabilities		(29)	(35)	(129)
Net cash inflow from financing activities		**5,116**	**1,515**	**2,602**
Net (decrease)/increase in cash and cash equivalents		**(4,981)**	**(1,140)**	**3,722**
Exchange rate differences		38	16	(57)
Opening cash and cash equivalents		9,923	6,258	6,258
Closing cash and cash equivalents		**4,980**	**5,134**	**9,923**

Notes to the condensed Group financial statements

1. Corporate information

The condensed interim financial statements of Alpha Plus Holdings plc and its subsidiaries ("the Group") for the six months ended 28 February 2019 do not constitute statutory financial statements within the meaning of s435 of the Companies Act 2006.

The summary results for the year ended 31 August 2018 have been extracted from the Group Financial Statements for the year then ended, which were approved by the Board of Directors on 11 December 2018, reported on by the Group's auditor and subsequently delivered to the Registrar of Companies. The audit report was unqualified and did not contain any statement required under s498 of the Companies Act 2006.

The condensed interim financial statements for the Group for the six months ended 28 February 2019 were authorised for issue in accordance with a resolution of the Directors on 24 April 2019.

2. Basis of preparation

The interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – "Interim Financial Reporting". These condensed interim financial statements should be read in conjunction with the Group Financial Statements for the year ended 31 August 2018 which were prepared in accordance with IFRS's as adopted by the European Union. The comparative figures for the year ended 31 August 2018 are consistent with the Group Financial Statements for the year then ended.

Consistent accounting policies and presentation have been used for each period.

3. Accounting policies

The results for the six months ended 28 February 2019 have not been audited. They have been prepared on the basis of the accounting policies set out in the Group Financial Statements for the year ended 31 August 2018.

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are both mandatory for accounting periods beginning on or after 1 January 2018. Neither of these new standards have a material impact on the Group's results for the current period or its net assets at the end of the period.

4. Going concern

The interim financial statements have been prepared on a going concern basis. In considering whether this is appropriate, the Directors have taken into account the following:

- The Group held £5.0m of cash at 28 February 2019. Although the Group had net current liabilities, current liabilities included £34.5m of deferred income that will not be settled in cash.

- The Group has loaned £33.8m to the ultimate parent company. Although repayment is not due until March 2024, early repayment may be received upon the written request of the lender.

- The Group is principally financed by £128.5m of secured sterling bonds which are listed on the London Stock Exchange Order Book for Retail Bonds ("ORB"). These bonds mature in December 2019 and March 2024. No repayments of capital fall due before the maturity date. The Directors have various options regarding the £48.5m bond redemption in December 2019 including selling all or part of the £50m of March 2024 bonds which are held on the Company's behalf by Deutsche Bank acting as Security Custodian or arranging alternative financing given the unsecured underlying assets held by the Group and available to provide security.

The Directors have referred to cash flow forecasts for the coming year in order to understand the capital requirements of the Group. As a result, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and consider it appropriate to prepare the financial statements on a going concern basis.

Notes to the condensed Group financial statements

5. Segmental information

The Group's chief operating decision maker, as defined in IFRS 8, is the Board of Directors. The Board views the Group's portfolio of schools and colleges as a single operational business and, consequently, no further detailed segmental analysis has been included in these interim financial statements.

6. Revenue and operating expenses

Revenue, all of which derives from continuing operations, relates to the provision of educational services, as analysed below:

	Six months to		Year to
	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Tuition fees	45,243	42,433	86,763
Accommodation income	6,586	5,468	11,960
Other ancilliary fees	2,845	3,306	5,747
	54,674	**51,207**	**104,470**

Operating expenses may be analysed as follows:	Six months to		Year to
	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Staff and other direct costs	35,965	34,512	68,778
Administrative expenses	16,249	16,675	33,006
	52,214	**51,187**	**101,784**

7. Finance costs

	Six months to		Year to
	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Interest on 5.75% secured sterling bonds	1,394	1,394	2,789
Interest on 5% secured sterling bonds	2,000	2,000	4,000
Amortisation of secured sterling bonds issue costs	189	189	377
Bank interest	43	46	102
Finance charges payable under finance leases	9	16	23
Other interest payable	4	11	1
Foreign exchange translation differences	155	364	-
	3,794	**4,020**	**7,292**

Notes to the condensed Group financial statements

8. Finance income

	Six months to 28/02/19	Six months to 28/02/18	Year to 31/08/18
	£000	£000	£000
Interest received from parent undertaking	1,306	1,612	3,145
Bank interest	97	26	50
Other interest receivable	31	30	67
Foreign exchange translation differences	-	-	23
	1,434	**1,668**	**3,285**

The loan to the ultimate parent undertaking attracts interest at 7% per annum.

9. Tax

Consolidated income statement	Six months to 28/02/19	Six months to 28/02/18	Year to 31/08/18
	£000	£000	£000
Current tax:			
Current tax charge	-	-	1
Deferred tax:			
Relating to origination and reversal of temporary differences	-	-	3,393
Tax charge for the period	**-**	**-**	**3,394**

Notes to the condensed Group financial statements

10. Property, plant and equipment

	Freehold land and buildings	Long leasehold land and buildings	Leasehold improvements	Fixtures and equipment	Assets under development	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost						
At 1 September 2018	92,400	13,148	42,629	39,066	1,422	188,665
Additions	502	-	1,343	1,185	1,815	4,845
At 28 February 2019	**92,902**	**13,148**	**43,972**	**40,251**	**3,237**	**193,510**
Depreciation						
At 1 September 2018	6,231	908	10,956	28,154	-	46,249
Depreciation charge	524	131	1,208	2,423	-	4,286
At 28 February 2019	**6,755**	**1,039**	**12,164**	**30,577**	**-**	**50,535**
Net book value						
At 28 February 2019	**86,147**	**12,109**	**31,808**	**9,674**	**3,237**	**142,975**
At 31 August 2018	86,169	12,240	31,673	10,912	1,422	142,416
At 28 February 2018	86,669	12,372	30,799	9,700	337	139,877

11. Investment property

	28/02/19	28/02/18	31/08/18
	£000	**£000**	**£000**
At beginning and end of period	**4,292**	**4,292**	**4,292**

Investment property at 28 February 2019 represented a residential property in Hampstead, London NW3. The Directors consider its cost to be a reasonable assessment of fair value with no significant unobservable inputs included in their assessment.

Notes to the condensed Group financial statements

12. Financial assets

	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Loan to parent company	34,875	45,133	42,067
Deposits receivable	3,385	3,215	3,462
Deferred lease expense	850	870	895
	39,110	**49,218**	**46,424**
Current	34,875	45,133	42,067
Non-current	4,235	4,085	4,357
	39,110	**49,218**	**46,424**

As at 1 September 2018, the Company had advanced a loan of £40.800m to the ultimate parent company. The parent company repaid £7m of this loan in December 2018. The remaining loan has a long-stop repayment date of 31 March 2024 but may be repaid at any earlier date by agreement between the parties. The ultimate parent company has agreed to repay these amounts upon receipt of a request from the Company and, consequently, the balance has been classified as a current asset.

Interest of 7% per annum is receivable by the Company in respect of this loan and the figure above includes £1.075m (31 August 2018: £1.333m) of accrued interest.

Deposits receivable at 28 February 2019 include £3.031m (28 February 2018: £3.065m) representing the fair value of US$5m deposited with the Group's bankers as security for the issuance of a standby letter of credit to the landlord of premises the Group has agreed to lease in New York.

13. Trade and other receivables

	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Trade receivables	2,092	1,743	281
Other receivables	194	317	743
Prepayments	8,054	7,160	3,290
	10,340	**9,220**	**4,314**

Notes to the condensed Group financial statements

14. Trade and other payables

	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Current			
Trade payables	2,182	3,144	889
Other payables	14,106	13,166	13,924
Social security and other taxes	1,014	1,312	1,041
Cash-settled share-based payments	-	159	159
Accruals	2,266	2,818	3,755
Deferred income	34,120	32,576	35,920
	53,688	**53,175**	**55,688**
Non-current			
Other payables	**7,800**	**7,197**	**7,511**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled in accordance with the supplier's terms of business.
- Other payables are primarily pupil and student deposits which are non-interest bearing. These are usually either offset against final term school fees or are returned when the student leaves the school or college.

15. Loans and borrowings

	28/02/19	28/02/18	31/08/18
	£000	£000	£000
Current loans and borrowings			
5.75% secured sterling bonds	48,848	48,664	48,756
5% secured sterling bonds	1,666	1,666	1,666
Obligations under finance leases	46	177	158
	50,560	**50,507**	**50,580**
Non-current loans and borrowings			
5% secured sterling bonds	78,720	78,527	78,623
Obligations under finance leases	107	99	24
	78,827	**78,626**	**78,647**

The secured sterling bonds are secured by way of a first legal mortgage over a portfolio of assets held by certain of the Company's subsidiaries and other related companies. This security portfolio is subject to annual external professional valuation and the Company is obligated to ensure that the value of the security portfolio is not less than 1.5 times the principal amount of the bonds in issue. Additional properties can be added to the security portfolio in the event of a shortfall. The properties currently constituting this security portfolio are detailed on the Group's website at www.alphaplusgroup.co.uk/investors. At the most recent valuation date, 1 March 2019, the security portfolio was valued at 2.18 times (1 March 2018: 2.14 times) the principal amount of the bonds in issue.

Interest on the 5.75% secured sterling bonds is payable twice a year, on 18 June and 18 December and the bonds mature on 18 December 2019. The current amount shown includes £0.564m of accrued interest and is net of unamortised issue costs of £0.216m (29 February 2018: £0.400m).

Notes to the condensed Group financial statements

15. Loans and borrowings *continued*

The Company issued £80m 5% secured sterling bonds on 31st March 2016. The current amount shown above of £1.666m represents accrued interest. The non-current amount at 28 February 2019 is net of unamortised issue costs of £1.281m (28 February 2018: £1.473m) which are being amortised over the eight year life of the bonds. Interest on the 5% secured sterling bonds is payable twice a year, on 30 September and 31 March and the bonds mature on 31 March 2024.

In addition to the £80m nominal value bonds issued on 31st March 2016, a further £50m of 5% secured sterling bonds were also issued on that date but are held on behalf of the Company by Deutsche Bank AG who were appointed as Retained Bond Custodian. The Company has waived its rights to receive payments of interest for as long as the Retained Bond Custodian continues to hold these bonds.

At 28 February 2019, the Group had £5 million (2018: £5 million) of undrawn committed borrowing facilities.

16. Financial instruments

A comparison by class of the carrying amounts and fair value of the Group's financial instruments is set out below:

	Fair value			Carrying amount		
	28/02/19	**28/02/18**	**31/08/18**	**28/02/19**	**28/02/18**	**31/08/18**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets						
Trade and other receivables	2,286	2,060	1,024	2,286	2,060	1,024
Loan to parent company	34,875	45,133	42,067	34,875	45,133	42,067
Other financial assets	4,235	4,085	4,357	4,235	4,085	4,357
Cash	4,980	5,134	9,923	4,980	5,134	9,923
Total	**46,376**	**56,412**	**57,371**	**46,376**	**56,412**	**57,371**
Financial liabilities						
Trade and other payables	16,288	16,310	14,813	16,288	16,310	14,813
5.75% secured sterling bonds	50,230	50,725	50,308	48,848	48,664	48,756
5% secured sterling bonds	84,126	85,113	85,749	80,386	80,193	80,289
Obligations under finance leases	153	276	182	153	276	182
Total	**150,797**	**152,424**	**151,052**	**145,675**	**145,443**	**144,040**

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate to their carrying amounts largely due to the short-term maturities of the instruments.
- The fair value of borrowings is evaluated, in the case of the secured sterling bonds, by reference to listed prices and, otherwise, by discounting expected future cash flows at prevailing market rates for instruments with substantially the same terms and characteristics.

Notes to the condensed Group financial statements

17. Operating cash flow

	Six months to 28/02/19	Six months to 28/02/18	Year to 31/08/18
	£000	**£000**	**£000**
Loss before tax	(4,186)	(6,134)	(9,232)
Adjustments to reconcile loss before tax to cash generated from operations:			
Depreciation of property, plant and equipment	4,286	3,802	7,911
Amortisation of deferred rent expense	(159)	(148)	(305)
Cash-settled share-based payments made	(159)	(137)	(137)
Finance income	(1,434)	(1,668)	(3,285)
Finance costs	3,794	4,020	7,292
Working capital adjustments:			
Increase in trade and other receivables	(6,026)	(4,678)	228
Increase in trade and other payables	(1,368)	7,052	10,060
Cash (consumed by) / generated from operations	**(5,252)**	**2,109**	**12,532**