ESG Holdings Limited

Annual report and financial statements for the year ended 31 July 2011

Registered number 06397426

ESG Holdings Limited

Annual report and financial statements for the year ended 31 July 2011

ESG Holdings Limited

Directors and advisors

Directors

G Freed
M Thurston
M Corden

Company secretary

M Thurston

Registered office

12 Europa View
Sheffield Business Park
Sheffield
S9 1XH

Independent auditors

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

ESG Holdings Limited

Directors' report
for the year ended 31 July 2011

The directors present their annual report and the audited consolidated financial statements of the group for the year ended 31 July 2011 The company is registered as number 06397426

Principal activity

The principal activity of the group was that of the provision of training and employment services The company holds investments in respect of the group

Business review

The results for the year are shown in the financial statements

The group reported a loss before tax for the year of £2,047,000 (2010 profit of £5,777,000) on turnover of £40,490,000 (2010 £44,568,000)

The business overall had a challenging year, with losses continuing into early 2012, as the impact of Skills Funding Agency changes to the apprenticeship model and the impact of the change of government on employability policy took effect Despite this, the employability business has performed well and the skills business continues to provide a profitable base for future consolidation

The change of Government in 2010 triggered a complete change of policy in the welfare to work sector with the numerous legacy DWP programmes, which had historically underpinned the Groups employment services performance ending, and a new single contract called the Work Programme being introduced

The Company tendered for the Work Programme and won a 7 year contract in the West Midlands which went live in June 2011 This contract was not in the Group's previously strong areas of the North West and London and therefore the transition saw the need to close existing premises and create new infrastructure in the West Midlands

During the financial year costs were incurred in setting up the new contract and the legacy contracts began to shrink prior to the transition impacting the reduction in profit compared to 2010

During 2011 the Group also won a smaller Mandatory Work Activity Contract in the West Midlands which complements the Work Programme structure and these two contracts provide a sound basis for the Group's continued performance and growth in this sector

The year ended 31 July 2011 has seen a number of challenges for the skills business These are outlined below

During 2011 the SFA announced two significant market changes

- Firstly that Train to Gain, which has been a key area of delivery esg since its introduction in 2008 would be ending and would be unavailable to new starts after April 2011 These programmes, which were shorter, lower funded courses and did not require the full apprenticeship framework to be completed, will be replaced by additional apprenticeship delivery in future years

- Secondly Programme Led Apprenticeships, where the learners can be taught in a classroom setting for an intensive period prior to them commencing employment with an appropriate employer, would no longer be allowed This means that in future all learners must be a work place setting and delivery will be predominantly at the employer's premises Starts on Programme Led Apprenticeships were stopped in April 2011

These changes resulted in changes to the operating model and staffing structure in 2011 and these changes will continue into 2012 They have also had an adverse impact on margins as the efficiency of the classroom based Programme Led approach can no longer be delivered and the age mix of learners has been affected since the Programme Led model was focussed on higher funded 16-18 year olds The Group has invested in a regional network of Employer Relations Officers and Learner Engagement Officers to target schools and local employers to mitigate this change in age mix

Business development

In May 2011, the skills business was awarded a new contract with the Welsh Assembly Government to deliver apprenticeships across a variety of sectors and geographies The Group was the sole new entrant to the market from outside of Wales

In April 2011, the employment business was awarded the Work Programme contract and the Mandatory Work activity contract in the West Midlands following successful award of a DWP Framework contract in January 2012

Senior executive appointments

Following the departure of Adrian Holmes (Chief Executive Officer), Michelle Rigby (Operations Director) and Richard Shepherd (Finance Director) from the senior management team during the financial year a number of new appointments were made

In January 2011 Gavin Freed, Chief Executive Officer of Paragon Education and Skills Group, was appointed as Chief Executive Officer Gavin has a wealth of experience in a similar business and in Private Equity backed organisations

In May 2011, Mark Thurston was appointed as Chief Financial Officer Mark has strong experience in service sector companies

Post balance sheet events

On the 23rd of July 2012 the majority shareholding in the Group was acquired by Orca (SPV) Limited, a wholly owned subsidiary of Ares Capital Europe Limited, the Group's loan provider A new loan agreement has been drawn up which will allow for a write down of the existing debt, a new cash injection and deferral of interest and capital loan payments

On 13 July 2011 a new company ESG (Skills) Limited was incorporated in England and Wales as a wholly owned subsidiary of esg Intermediate Holdings Limited On 1 August 2011, the trade and assets of Sheffield Trainers Limited, Orient Gold Limited and Triangle Training Limited were hived across to ESG (Skills) Limited All assets and liabilities have been transferred across at book value as at 31 July 2011

The purpose of this is to create one consolidated skills contract with the SFA for the esg Group and positions the Group for future growth in the skills and vocational training market

Future outlook

The Coalition Government remains committed to up-skilling the UK workforce, so that businesses are equipped with appropriately skilled employees to enable them to compete in today's global and local markets

Additionally, rising unemployment and the cost of benefits mean that it is essential for the Government to find solutions via employment services and training programmes and the Government remains committed to the Work Programme which is a 7 year contract

Directors' report
for the year ended 31 July 2011 (continued)

This provides a solid foundation on which the business is based, and will continue to present significant opportunities for the group to grow both organically and via acquisitions Additionally, the group is aiming to diversify into other similar markets with funders that are new to the group such as the Ministry of Defence and Ministry of Justice

Principal risks and uncertainties

The management of the group's business and the execution of the group's strategy are subject to a number of risks The key business risks affecting the group are considered to relate to competition from both national and local training organisations and changes in Government policy, following the election of the Coalition Government The board regularly reviews the group's tenders and market trends in order to respond to these However, the Government remains fully committed to investing in the employability services and skills sectors in order to improve the competitiveness of UK businesses

Going concern

Following the disappointing results for the year there has been a change of ownership and a refinance of the debt in 2012 Budgets have been prepared which show that this combined with the projected cash inflows from trading will be sufficient to settle creditors as they arise The loan is also subject to a number of covenants and, whilst these are subject to fluctuations in working capital and changes in trading, the directors have reviewed forecasts for a period of at least 12 months from the date of these financial statements and do not foresee any matters will arise which would result in changes to the current terms of the loan

Key performance indicators (KPIs)

The group's directors consider a range of KPIs to measure the business The set of KPIs is constantly reviewed and changes over time with the development of the business The range of measures includes but is not limited to contractual performance levels, quality ratings, health and safety, equal opportunities and a range of financial measures The directors believe that because of the nature of the business, disclosing further KPIs is not necessary for an understanding of the group's development, performance or position

Employees

The group recognises the value of employee involvement in its activities and encourages both formal and informal communication between management and employees including awareness of the performance and results of the group The group has in place a training plan which is reviewed annually and provides employees with the opportunity to develop their skills Fair and full consideration is given to applications for employment from disabled persons, the continuing employment of any disabled staff, and to their training, career development and promotion The group is an equal opportunities employer

Dividends

Dividends of £nil were paid for the year ended 31 July 2011 (2010 £14,986,000)

ESG Holdings Limited

Directors' report
for the year ended 31 July 2011 (continued)

Directors

The directors shown below have held office during the year and, except where stated, subsequently

PD Brett	(appointed on 13 October 2010, resigned 25 November 2011)
RJH Robson	(resigned 25 November 2011)
J Rodriguez	(resigned 23rd July 2012)
G Freed	(appointed on 28 January 2011)
M Thurston	(appointed 25 May 2011)
M Corden	
J Sharpe	(resigned 30 November 2011)
P Phillipson	(resigned 24 October 2010)
A Holmes	(resigned 29 October 2010)
M Rigby	(resigned 30 November 2010)
R Shepherd	(resigned 25 May 2011)

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of liquidity risk and interest rate risk The liquidity risk has been increased by the change of payment method in the employability business to payment by results which means that revenue and cash receipts lag behind the cost of delivery The directors actively manage these risks by monitoring levels of risk, trends in interest rates and the related costs Interest rate caps are used where appropriate and the group generally maintains cash balances together with term loan facilities that are designed to ensure the group has sufficient available funds for its operations and its required level of working capital The group's debt is subject to a number of quarterly covenant tests Should the group be unable to successfully meet these, the loan could become repayable on demand To manage this risk the directors maintain forecasts, keep its financiers fully aware of results and forecasts and when anticipated obtain assurance from the lender that no changes to the loan terms will arise that could impact the group's liquidity and ability to meet its obligations

Credit risk is considered to be low as income arises wholly from the government and payments are made daily based on results reported

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

ESG Holdings Limited

Directors' report
for the year ended 31 July 2011 (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditors and disclosure of information to auditors

In accordance with Section 418, in the case of each director in office at the date the directors' report is approved

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

Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

On behalf of the board

G Freed
Director

24th July 2012

ESG Holdings Limited

Independent auditors' report to the members of ESG Holdings Limited

We have audited the group and parent company financial statements ("the financial statements") of ESG Holdings Limited for the year ended 31 July 2011 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 5 and 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2011 and of the group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of ESG Holdings Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Teager (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
25 July 2012

ESG Holdings Limited

Consolidated profit and loss account for the year ended 31 July 2011

	Note	2011	2010
		£'000	£'000
Turnover – continuing operations	1	**40,490**	44,568
Cost of sales		**(23,861)**	(23,280)
Gross profit		**16,629**	21,288
Administrative expenses		**(15,638)**	(13,381)
Operating profit – continuing operations	2	**991**	7,907
Interest receivable and similar income		**45**	4
Interest payable and similar charges	4	**(3,083)**	(2,134)
(Loss)/profit on ordinary activities before taxation		**(2,047)**	5,777
Tax on (loss)/profit on ordinary activities	5	**(26)**	(1,886)
(Loss)/profit for the financial year after taxation		**(2,073)**	3,891
Minority interests		**-**	(84)
(Loss)/profit for the financial year	16	**(2,073)**	3,807

The group has no recognised gains and losses other than the (loss)/profit for the current or prior financial year

There is no difference between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for the financial year and their historical cost equivalents

ESG Holdings Limited

Consolidated balance sheet
as at 31 July 2011

	Note	2011	2010
		£'000	£'000
Fixed assets			
Intangible assets	7	**13,131**	15,030
Tangible assets	8	**1,290**	1,422
		14,421	16,452
Current assets			
Debtors	10	**4,991**	4,540
Cash at bank and in hand		**1,530**	3,300
		6,521	7,840
Creditors amounts falling due within one year	11	**(24,941)**	(9,023)
Net current liabilities		**(18,420)**	(1,183)
Total assets less current liabilities		**(3,999)**	15,269
Creditors: amounts falling due after more than one year	12	**(750)**	(17,842)
Provisions for liabilities and charges	14	**(1,465)**	(1,543)
Net liabilities		**(6,214)**	(4,116)
Capital and reserves			
Called up share capital	15	**1**	1
Share premium account	16	**80**	80
Other reserves	16	**1,343**	1,343
Profit and loss account	16	**(7,638)**	(5,540)
Total shareholders' deficit	17	**(6,214)**	(4,116)

These financial statements on pages 9 to 34 were approved by the board of directors on the 24th July 2012 and were signed on its behalf by

G Freed
Director

ESG Holdings Limited

Registered number 06397426

ESG Holdings Limited

Company balance sheet
as at 31 July 2011

	Note	**2011**	2010
		£'000	£'000
Fixed assets			
Intangible assets	7	**317**	-
Tangible assets	8	**175**	-
Investments	9	**1**	1
		493	1
Current assets			
Debtors	10	**2,611**	1,198
Cash at bank and in hand		**293**	-
		2,904	1,198
Creditors. amounts falling due within one year	11	**(1,524)**	-
Net current assets		**1,380**	1,198
Total assets less current liabilities		**1,873**	1,199
Creditors: amounts falling due after more than one year	12	**(750)**	-
Net assets		**1,123**	1,199
Capital and reserves			
Called up share capital	15	**1**	1
Share premium account	16	**80**	80
Profit and loss account	16	**1,042**	1,118
Total shareholders' funds	17	**1,123**	1,199

These financial statements on pages 9 to 34 were approved by the board of directors on the 24th July 2012 and were signed on its behalf by

G Freed
Director

ESG Holdings Limited

Consolidated cash flow statement for the year ended 31 July 2011

	Cash flow note	2011	2010
		£'000	£'000
Cash inflow from operating activities	1	**6,702**	15,091
Returns on investments and servicing of finance	2	**(2,395)**	(3,367)
Taxation		**(1,197)**	(3,636)
Capital expenditure	2	**(874)**	(1,102)
Acquisitions and disposals	2	**-**	(616)
Equity dividend paid		**-**	(14,986)
Net cash inflow/(outflow) before financing		**2,236**	(8,616)
Financing	2	**(4,006)**	7,325
Decrease in cash in the year		**(1,770)**	(1,291)

Reconciliation of net cash flow to movement in net debt

Decrease in cash in the year	3	**(1,770)**	(1,291)
Cash outflow/(inflow) from decrease/(increase) in debt	3	**3,981**	(5,609)
Change in net debt resulting from cash flows		**2,211**	(6,900)
Non cash movements			
– amortisation of issue costs	3	**(668)**	(324)
- loan notes issued in exchange for contract guarantee		**(750)**	-
Movement in net debt in the year		**793**	(7,224)
Net debt at 1 August	3	**(18,417)**	(11,193)
Net debt at 31 July	3	**(17,624)**	(18,417)

ESG Holdings Limited

Notes to the consolidated cash flow statement for the year ended 31 July 2011

1 Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	£'000	£'000
Operating profit	**991**	7,907
Depreciation charges	**694**	661
(Profit) / loss on disposal of fixed assets	**(5)**	2
Amortisation of goodwill	**2,216**	2,194
Decrease in debtors	**836**	2,735
Increase in creditors	**1,970**	1,592
Net cash inflow from operating activities	**6,702**	15,091

ESG Holdings Limited

Notes to the consolidated cash flow statement for the year ended 31 July 2011 (continued)

2 Analysis of cash flows

	2011	2010
	£'000	£'000
Returns on investments and servicing of finance		
Interest received	**45**	4
Interest paid	**(2,440)**	(1,680)
Loan issue costs paid	**-**	(1,691)
	(2,395)	(3,367)
Capital expenditure		
Purchase of tangible fixed assets	**(557)**	(1,107)
Purchase of intangible assets	**(323)**	-
Sale of tangible fixed assets	**6**	5
	(874)	(1,102)
Acquisitions and disposals		
Purchase of minority interest in existing subsidiary undertaking	**-**	(616)
Financing		
Proceeds from issue of share capital	**-**	25
Loans advanced in the year	**-**	25,000
Repurchase of own shares	**(25)**	-
Repayment of loan notes	**-**	(7,450)
Loan repayments in the year	**(3,981)**	(10,250)
	(4,006)	7,325

Notes to the consolidated cash flow statement for the year ended 31 July 2011 (continued)

3 Analysis of net debt

	31 July 2010	Cash flow	Non cash movements	**31 July 2011**
	£'000	£'000	£'000	**£'000**
Cash				
Cash at bank and in hand	3,300	(1,770)	-	**1,530**
Debt				
Debt falling due within one year	(3,875)	3,981	(18,510)	**(18,404)**
Debt falling due after one year	(17,842)	-	17,092	**(750)**
	(21,717)	3,981	(1,418)	**(19,154)**
Net debt	(18,417)	2,211	(1,418)	**(17,624)**

ESG Holdings Limited

Notes to the financial statements for the year ended 31 July 2011

1 Accounting policies

The group financial statements have been prepared under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) and applicable UK accounting and financial reporting standards A summary of the more important accounting policies is set out below

Basis of preparation

These financial statements have been prepared under the going concern basis and historical cost convention On the 23rd of July 2012 the majority shareholding in the Group was acquired by Orca (SPV) Limited, a wholly owned subsidiary of Ares Capital Europe Limited, the Groups loan provider A new loan agreement has been drawn up which will allow for a write down of the existing debt, a new cash injection and deferral of interest and capital loan payments (see also note 13) Whilst the Group has net current liabilities and net liabilities, budgets and forecasts have been prepared for a period in excess of 12 months from the date of these financial statements which show that the additional loan combined with the projected cash inflows from trading will be sufficient to settle creditors as they fall due A significant proportion of the Group's employability business relates to the Work Programme contract that commenced in June 2011 The profile of funding for the Work programme has a greater element linked to achieving sustained periods of employment following successful job outcomes than under previous contracts At this time there has been only a fairly short period of trading under these new arrangements to establish a track record for achieving sustained employment periods Accordingly loan related covenants allow for some fluctuation in working capital and changes in trading The directors consider that, whilst this brings a degree of uncertainty, this has been cautiously assessed, and based on the likely trading scenario together with the indicated support from their loan provider they do not foresee any circumstances that would result in changes to the current terms of the loan or impact on their assessment of the group as a going concern

Basis of consolidation

The combination with, and legal acquisition of Sheffield Trainers Limited by the current parent company in the year ended 31 July 2008 was accounted for in accordance with the principles of merger accounting The consolidation of all other subsidiaries is dealt with using acquisition accounting and the results of subsidiaries acquired during the year are included in the consolidated profit and loss account from, or up to, the date that control passes Uniform group accounting policies are applied and intra-group transactions are eliminated fully on consolidation On acquisition of a subsidiary, all the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary are charged to the post acquisition profit and loss account

Turnover

Turnover, which all arises in the UK, comprises revenue for training and employment services supplied and is exclusive of any VAT It is recognised by the company when receivable in respect of new learner or client recruitment, training delivered and any achievement of employment milestones or training qualifications Where revenue is dependent on a successful outcome for the learner or client, it is recognised only on achievement Amounts relating to benefit allowances are only released to income once the relevant claim period has elapsed Attachment fees for registering and assessing clients are recognised when receivable by the company as this element is non-refundable and it is considered that services in respect of the fee have been performed with no future performance obligation The funding contracts have a number of performance and documentation criteria attached to them Revenue is recognised to the extent that management consider the relevant criteria to be used for assessment have been met Where uncertainty exists income is deferred and included in other provisions until the outcome of contract reviews is finalised

1 Accounting policies (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of identifiable net assets and liabilities acquired Goodwill arising on acquisitions is carried forward as an asset and amortised over its estimated useful economic life of 10 years on a straight line basis, subject to a review for any impairment indicators If the book value exceeds the recoverable amount, an impairment is charged

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation Depreciation is provided at the following rates in order to write off the cost of each asset less its estimated residual value over its estimated useful life

Leasehold improvements	straight line over the remaining lease period
Fixtures, fittings & office equipment	straight line over 3-4 years
Motor vehicles	straight line over 3-4 years
Computer equipment	straight line over 3 years

Investments

Investments in subsidiary undertakings are recorded at cost less any provision for impairment Impairment reviews are performed by the directors when there has been an indication of potential impairment

Deferred taxation

Full provision is made for deferred tax assets and liabilities on a non discounted basis arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Loan issue costs

The initial issue costs directly incurred in obtaining loan finance are deducted from the loan liability and charged to the profit and loss account over the terms of the loan in proportion to the outstanding liability Unamortised costs are fully expensed on any early redemption of loans

Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

Share based payments

The fair value of any equity settled management remuneration is calculated and charged to the profit and loss account over the period in which the rights to the equity vest

Pensions

The group operates a defined contribution pension scheme Contributions payable for the year are charged in the profit and loss account

1 Accounting policies (continued)

Dilapidations provisions

Provisions are recognised when the company has an obligation for dilapidations as a result of a property lease and when a reliable estimate can be made

2 Operating profit

The operating profit is stated after charging:

	2011	2010
	£'000	£'000
Operating leases		
- Plant and machinery	**48**	41
- Land and buildings	**1,599**	1,135
Depreciation of tangible fixed assets	**688**	661
(Profit)/loss on disposal of fixed assets	**(5)**	2
Goodwill amortisation	**2,216**	2,194
Amortisation of intangible assets	**6**	45
Auditors' remuneration		
- for audit of parent company and consolidation	**8**	8
- for audit of subsidiaries pursuant to legislation	**47**	45
- for taxation services	**10**	48

The auditors' remuneration for the company, together with certain other administrative expenses, has been borne by Sheffield Trainers Limited, a subsidiary undertaking, and not recharged to the company

All interest receivable relates to bank balances

Directors emoluments	**2011**	2010
	£'000	£'000
Aggregate emoluments	**424**	648
Compensation for loss of office	**80**	-
Pension contributions to money purchase schemes	**4**	9
	508	657

Notes to the financial statements for the year ended 31 July 2011 (continued)

2 Operating profit (continued)

The number of directors to whom retirement benefits were accruing under defined contribution schemes was 3 directors (2010 3)

Information regarding the highest paid director is as follows

	2011	2010
	£'000	£'000
Aggregate emoluments	108	157
Pension contributions to money purchase schemes	-	5

3 Staff costs

	2011	2010
	£'000	£'000
Wages and salaries	17,548	17,554
Social security costs	1,618	1,644
Other pension costs	34	36
	19,200	19,234

The average monthly number of employees including directors during the year was as follows

	2011	2010
By activity	£'000	£'000
Operations and support	203	203
Training and assessment	584	584
	787	787

Notes to the financial statements
for the year ended 31 July 2011 (continued)

4 Interest payable and similar charges

	2011	2010
	£'000	£'000
Bank interest and similar charges	77	370
Other loan interest	2,253	1,158
Amortisation of loan issue costs (including amounts fully expensed on early redemption)	675	528
Monitoring costs (note 20)	78	78
	3,083	2,134

ESG Holdings Limited

Notes to the financial statements for the year ended 31 July 2011 (continued)

5 Taxation

Analysis of tax charge

The tax charge on the (loss)/profit on ordinary activities for the year is as follows

	2011	2010
	£'000	£'000
Current tax		
UK Corporation tax at 27 33%	128	2,283
Over provision in prior year	(63)	(372)
	65	1,911
Deferred tax		
Origination and reversal of timing differences (note 14)	(39)	(25)
	(39)	(25)
Tax on (loss)/profit on ordinary activities	26	1,886

Factors affecting the tax charge

The tax assessed for the year is higher (2010 higher) than the standard rate of corporation tax in the UK of 27 33% (2010 28%) The differences are explained below

	2011	2010
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(2,047)	5,777
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 27 33% (2010 28%)	(559)	1,618
Effects of·		
Depreciation in excess of capital allowances	82	23
Expenditure not allowable for tax purposes including goodwill amortisation	605	642
Over provision in prior year	(63)	(372)
Current tax charge	65	1,911

5 Taxation (continued)

The Emergency Budget 2010, substantively enacted on 21 July 2010, introduced a reduction in the rate of corporation tax from 28% to 27% Deferred tax assets and liabilities are measured at tax rates that are enacted or substantively enacted at the balance sheet date A reduction to a 26% rate which will impact the group's tax charges from April 2011 was enacted in March 2011 A further reduction to 24% from April 2012 was subsequently enacted with an intention to reduce the rate to 22% in future years

6 Profit of parent company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements The parent company's loss for the financial year was £51,000 (2010 profit £16,348,000) (note 18)

7 Intangible fixed assets

Group	Project costs	Goodwill	Total
	£'000	£'000	£'000
Cost			
At 1 August 2010	-	22,122	22,122
Additions	323	-	323
At 1 August 2010 and 31 July 2011	**323**	**22,122**	**22,445**
Accumulated amortisation			
At 1 August 2010	-	7,092	7,092
Charge for the year	6	2,216	2,222
At 31 July 2011	**6**	**9,308**	**9,314**
Net book value			
At 31 July 2011	**317**	**12,814**	**13,131**
At 31 July 2010	-	15,030	15,030

Goodwill is being amortised over the 10 year period expected to benefit from the amount acquired

Project costs with a net book due of £317,000 are an intangible fixed asset held by the company

Notes to the financial statements for the year ended 31 July 2011 (continued)

8 Tangible fixed assets

Group	Leasehold improve-ments	Fixtures, fittings & office equipment	Motor vehicles	Computer equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 August 2010	704	721	23	1,863	3,311
Additions	57	69	-	431	557
Disposals	-	-	(15)	(1)	(16)
At 31 July 2011	**761**	**790**	**8**	**2,293**	**3,852**
Accumulated depreciation					
At 1 August 2010	261	393	23	1,212	1,889
Charge for year	132	153	-	403	688
Disposals	-	-	(15)	-	(15)
At 31 July 2011	**393**	**546**	**8**	**1,615**	**2,562**
Net book value					
At 31 July 2011	**368**	**244**	**-**	**678**	**1,290**
At 31 July 2010	443	328	-	651	1,422

Notes to the financial statements for the year ended 31 July 2011 (continued)

8 Tangible fixed assets (continued)

Company	Computer equipment
	£'000
Cost	
At 1 August 2010	-
Additions	178
At 31 July 2011	**178**
Accumulated depreciation	
At 1 August 2010	-
Charge for year	3
At 31 July 2011	**3**
Net book value	
At 31 July 2011	**175**
At 31 July 2010	-

9 Fixed asset investments

Company	**Shares in group undertakings**
	£'000
Cost	
At 31 July 2011 and 31 July 2010	1
Net book value	
At 31 July 2011 and 31 July 2010	**1**

The company's investments at the balance sheet date in the share capital of companies, all of which are incorporated in England and Wales, includes the following

Subsidiary	**Principal activity**		**% share holding**
ESG Intermediate Holdings Limited	Intermediate holding company	Direct holding	Ordinary – 100 Preferred -100
Sencia Limited	Provision of training and employment services	Indirect holding	Ordinary – 100 Preference – 100
ESG Corporate Services Limited (formerly Sheffield Trainers Limited	Vocational training under contract from the Skills Funding Agency	Indirect holding	Ordinary – 100
Orient Gold Limited	Vocational training under contract from the Skills Funding Agency	Indirect holding	Ordinary – 100
Broomco (4110) Limited	Intermediate holding company	Indirect holding	Ordinary – 100
Triangle Training Holdings Limited	Intermediate holding company	Indirect holding	Ordinary – 100
Triangle Training Limited	Vocational training under contract from the Skills Funding Agency	Indirect holding	Ordinary – 100
ESG (Skills) Limited	Vocational training from 1 August 2011	Indirect holding	Ordinary – 100

Notes to the financial statements for the year ended 31 July 2011 (continued)

10 Debtors

		2011		2010
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade debtors	**1,894**	**177**	2,868	-
Amounts owed by group undertakings	**-**	**970**	-	1,145
Other debtors	**342**	**144**	960	-
Prepayments and accrued income	**2,138**	**694**	631	13
Corporation tax	**497**	**625**	-	40
Deferred tax asset (note 14)	**120**	**1**	81	-
	4,991	**2,611**	4,540	1,198

The amounts owed by group undertakings are unsecured, interest free and have no fixed date for repayment

Notes to the financial statements for the year ended 31 July 2011 (continued)

11 Creditors: amounts falling due within one year

	2011		2010	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Other loan (note 13)	**18,404**	-	3,875	-
Trade creditors	**1,483**	-	1,028	-
Amounts owed to group undertakings	-	**901**	-	-
Amounts owed to associate undertakings	**129**	-	-	-
Corporation tax	-	-	634	-
Taxation and social security	**483**	-	455	-
Other creditors	**1,742**	-	1,473	-
Accruals and deferred income	**2,700**	**623**	1,558	-
	24,941	**1,524**	9,023	-

The amounts owed to group undertakings are unsecured, interest free and have no fixed date for repayment

12 Creditors: amounts falling due after more than one year

	2011		2010	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Other loan (note 13)	**750**	**750**	17,842	-

13 Maturity of debt

An analysis of the maturity of loans is given below

		2011		2010
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Amounts falling due within one year or on demand				
Other loan	**19,269**	-	3,875	-
Amounts falling due between one and two years				
Other loan	-	-	6,875	-
Amounts falling due between two and five years				
Other loan	**750**	**750**	12,500	-
	20,019	**750**	23,250	-
Unamortised loan issue costs	**(865)**	-	(1,533)	-
	19,154	**750**	21,717	-

The loan of £19 3m is secured by a fixed charge over the group's assets together with cross guarantees between all group companies

The loan was repayable over 4 years, and interest is payable at 8% plus the higher of (i) 2% or (ii) LIBOR

Interest on £4 55m of the loan was swapped for a fixed rate of 6 25% until November 2010 Two-thirds of the loan is subject to a base rate cap of 3% until May 2012

Under the terms of the main loan agreement it became payable in full and on demand at 31 July 2011 following breach of the related covenants

Subsequent to the year end, an amended facilities agreement has been signed which has written down part of the debt and allows for the draw-down of additional cash of up to £4 5m This defers interest and repayments until a loan redemption date of 31st January 2014

A £750,000 loan note was issued to the company by Sovereign Capital LLP during the year and was repayable in 2016 Subsequent to the year end, this loan note has been exchanged for equity in the company

Notes to the financial statements for the year ended 31 July 2011 (continued)

14 Provisions for liabilities

Group	Dilapidation provisions	Other provisions	Total
	£'000	£'000	£'000
At 1 August 2010	249	1,294	1,543
Provided/(utilised) in the year	270	(348)	(78)
At 31 July 2011	**519**	**946**	**1,465**

Dilapidations provisions relate to claims expected to arise at the end of property leases over a period of one to five years

Deferred taxation asset	**Group**	Group
	2011	2010
Timing differences in respect of	**£'000**	£'000
Capital allowances	**120**	81

	£'000
At 1 August 2010	81
Credit for the year (note 5)	39
At 31 July 2011	**120**

The company has no provisions for liabilities and charges

15 Called up share capital

	2011	2010
	£'000	£'000
Authorised		
709,364 (2010 709,364) 'A' ordinary shares of £0 001 each	1	1
278,679 (2010 279,468) 'B' ordinary shares of £0 001 each	-	-
20,584 (2010 20,584) 'C' ordinary shares of £0 001 each	-	-
20,584 (2010 20,584) 'D' ordinary shares of £0 001 each	-	-
20,584 (2010 20,584) 'E' ordinary shares of £0 001 each	-	-
	1	1
Allotted, called up and fully paid		
709,364 (2010 709,364) 'A' ordinary shares of £0 001 each	1	1
278,679 (2010 278,679) 'B' ordinary shares of £0 001 each	-	-
20,584 (2010 20,584) 'C' ordinary shares of £0 001 each	-	-
nil (2010 20,584) 'D' ordinary shares of £0 001 each	-	-
	1	1

On a sale or return of assets, the available reserves are to be distributed to equity shareholders as follows -

The 'A' Ordinary shares are entitled to 71 79% of any amount up to £41,485,000, and then 70 00% of any remaining value

The 'B' Ordinary shares are entitled to 28 21% of any amount up to £41,485,000, 28 00% of any value between £41,485,000 and £78,434,000, and 24% of any value over £78,434,000

The 'C' Ordinary shares are entitled to 2 00% of any amount above £41,585,000

The 'D' Ordinary shares are entitled to 2 00% of any amount above £78,434,000

Under the terms of the company's articles, certain major transactions require the consent of the A shareholders and in the event of a breach of specific financial conditions only A shareholders have voting rights

The company repurchased 20,584 D ordinary shares for £25,000 during the year

Notes to the financial statements for the year ended 31 July 2011 (continued)

16 Reserves

Group	Share premium account	Profit and loss account	Other reserve
	£'000	£'000	£'000
At 1 August 2010	80	(5,540)	1,343
Share repurchase	-	(25)	-
Loss for the financial year	-	(2,073)	-
At 31 July 2011	**80**	**(7,638)**	**1,343**

The shares issued in the company in October 2007 in exchange for shares in the subsidiary have been included at their nominal value in the company's financial statements and at fair value in the group with another reserve created for the £3,507,000 of additional fair value in the group balance sheet Merger accounting on consolidation results in a debit to the other reserve of £2,164,000 for eliminating the cost of investment in this subsidiary

Company	Share premium account	Profit and loss account
	£'000	£'000
At 1 August 2010	80	1,118
Share repurchase	-	(25)
Loss for the financial year	-	(51)
At 31 July 2011	**80**	**1,042**

17 Reconciliation of movements in total shareholders' funds/(deficit)

Group	2011	2010
	£'000	£'000
(Loss)/profit for the financial year	(2,073)	3,807
Shares (repurchased)/issued in the year	(25)	25
Dividend paid	-	(14,986)
Net reduction in total shareholders' (deficit)	(2,098)	(11,154)
Opening total shareholders' (deficit) / funds	(4,116)	7,038
Closing total shareholders' (deficit)	(6,214)	(4,116)

Company	2011	2010
	£'000	£'000
(Loss) / profit for the financial year	(51)	16,348
Dividend paid	-	(14,986)
Shares (repurchased)/issued in the year	(25)	25
Net (reduction) / addition to total shareholders' funds	(76)	1,387
Opening shareholders' funds/(deficit)	1,199	(188)
Closing total shareholders' funds	1,123	1,199

18 Lease commitments

At the year end the group had annual commitments under non-cancellable operating leases expiring as follows

	Land and buildings		Other	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Under leases expiring:				
Within one year	**44**	667	**7**	3
Between two and five years	**599**	623	**46**	47
	643	1,290	**53**	50

19 Related party disclosures and ultimate controlling party

In preparing these financial statements, the directors have taken advantage of the exemption available under paragraph 29(c) of FRS 8, Related Party Disclosures, and have not disclosed transactions with other wholly owned group undertakings

During the year, the following transactions took place with related parties

Directors held interests in the shares of the company as follows

	31 July 2011	31 July 2010
RJH Robson	4,925 'A' ordinary shares	4,925 'A' ordinary shares
J Rodriguez	476 'A' ordinary shares	476 'A' ordinary shares
PW Phillipson	- 'D' ordinary shares	20,584 'D' ordinary shares
AR Holmes	209,175 'B' ordinary shares	209,175 'B' ordinary shares
M Rigby	44,137 'B' ordinary shares	44,137 'B' ordinary shares
R Shepherd	20,584 'C' ordinary shares	20,584 'C' ordinary shares
J Sharpe	10,934 'B' ordinary shares	10,934 'B' ordinary shares
M Corden	14,433 'B' ordinary shares	14,433 'B' ordinary shares

Notes to the financial statements for the year ended 31 July 2011 (continued)

19 Related party disclosures and ultimate controlling party (continued)

Fees of £78,000 (2010 £78,000) in respect of the financing and investments, were paid to Sovereign Capital Partners LLP in the year, an entity which manages the A shareholders' funds during the period and an entity in which J Rodriguez and RJH Robson (both directors), have an interest

The directors consider there to be no ultimate controlling party as defined by FRS 8 'Related Party Disclosures' Following acquisition of the group by Orca (SPV) Limited on 23 July 2012, Ares Capital Europe Limited became the controlling shareholder Prior to this, Sovereign Capital Partners LLP managed the interests of the Sovereign Capital funds who were the principal shareholders