

ESG Holdings Limited

Annual report and financial statements  
for the year ended 31 July 2012

Registered number 06397426

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# **ESG Holdings Limited**

## **Annual report and financial statements for the year ended 31 July 2012**

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# **ESG Holdings Limited**

## **Directors and advisors**

### **Directors**

A Benton  
G Freed  
J Dobson  
J Ferguson  
M Dennis

### **Company secretary**

J Dobson

### **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 2012

The directors present their annual report and the audited consolidated financial statements of the group for the year ended 31 July 2012. The company is registered as number 06397426.

### Principal activity

The principal activity of the group was that of the provision of training and employment related services. The company is a holding company for the subsidiaries of the group and operates a direct employment related contract.

### Business review

The results for the year are shown in the financial statements.

The group reported a loss before tax for the year of £10,267,000 (2011: loss of £2,047,000) on turnover of £26,348,000 (2011: £40,490,000) in a year that was affected by substantial market changes.

Training related services are traded through ESG (Skills) Limited and is reported as the Skills division. Employment related services are traded through both Sencia Limited and ESG Holdings Limited and are reported collectively as the Employment division. All Head Office costs are traded through ESG Corporate Services Limited and are reported as the Corporate division but recharged to ESG (Skills) Limited, ESG Holdings Limited and Sencia Limited for statutory accounts purposes.

The group loss before tax was broken down as follows:

| Division                                                      | 2012<br>£'000   | 2012<br>OP % of<br>revenue | 2011<br>£'000  | 2011<br>OP % of<br>revenue |
|---------------------------------------------------------------|-----------------|----------------------------|----------------|----------------------------|
| Skills operating profit before corporate recharges            | 1,535           | 9.7%                       | 3,980          | 18.9%                      |
| Employment operating (loss)/profit before corporate recharges | (261)           | -                          | 4,403          | 22.5%                      |
| Corporate costs                                               | (4,198)         |                            | (5,142)        |                            |
| <b>Underlying trading (loss)/profit</b>                       | <b>(2,924)</b>  |                            | <b>3,241</b>   |                            |
| Goodwill amortisation                                         | (2,217)         |                            | (2,217)        |                            |
| Exceptional items including £820,000 of deal fees             | (1,055)         |                            | (33)           |                            |
| Exceptional guarantee facility fee write off                  | (688)           |                            | -              |                            |
| <b>Reported operating (loss)/profit</b>                       | <b>(6,884)</b>  |                            | <b>991</b>     |                            |
| Interest payable, interest receivable & bank charges          | (2,301)         |                            | (2,363)        |                            |
| Amortisation of legacy loan issue costs                       | (1,082)         |                            | (675)          |                            |
| <b>Loss before tax</b>                                        | <b>(10,267)</b> |                            | <b>(2,047)</b> |                            |

Both the Skills and Employment divisions experienced challenging trading conditions in the year as their markets went through substantial change. Much of 2012 has been about restructuring operations to address these market changes.

# **ESG Holdings Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

### **Skills**

The Skills business continued to see the impact from the Skills Funding Agency (SFA) changes to the apprenticeship model which adversely impacted revenue and margins through the group's changing mix of provision. These were:

- Train to Gain, a key area of delivery for ESG since its introduction in 2008, ended with no new starts after April 2011. Train to Gain accounted for £3.2m of revenue in 2011.
- Programme Led Apprenticeships, where learners were taught in a classroom setting, was no longer allowed after April 2011. This meant that in future all learners must be in a work place setting, a less efficient model. Programme Led revenue accounted for £5.8m of revenue in 2011.

These factors left a shortfall in new learner starts at the end of 2011 which led to lower numbers of learners carried in to 2012. A period of readjustment of the sales model has been necessary and has taken 12 months to complete.

In addition, ESG has been working to improve the overall quality of its delivery. Previously, a period of high growth had failed to prioritise this aspect. The carry in cohort of learners in 2012 included a large number of unfunded learners who had passed their planned programme lengths and not completed. This had arisen from deep seated historical capacity and quality issues. During 2012, ESG worked hard on reducing this cohort of learners to the detriment of profit but this has left a much improved cohort to carry into 2013. Furthermore, the group has demonstrated its commitment to the SFA call for minimum 12 month programme lengths by taking the decision to prepare by not placing learners on short programme lengths during 2012. This has limited the potential additional revenue which could be drawn down and the ability to compensate for the poor performance at the beginning of the year but means ESG has a clean cohort of 12 month programme lengths going into 2013.

All of these factors have impacted on revenue in order for the business to go through a number of necessary operational changes essential to create the appropriate stable platform from which to grow the business in the future and provide confidence to all stakeholders.

In October 2011, the group appointed a new Chief Operating Officer, Anthony Benton. Anthony has successfully driven significant business improvements in his previous roles and was responsible for major organisational restructures which led to growth in both revenue and profits. Since his appointment, Anthony has strengthened the skills management team and has now created smaller operating teams with clear accountability for performance. New systems, processes and reporting functions have been introduced and the focus has been on driving up quality and capacity.

Most recently, Anthony has re-engineered the sales force, increasing capacity in our call centre and increasing the field based sales resource who can focus on attracting 16-18 year old learners, engaging with national employers and Local Enterprise Partnerships (LEP's).

### **Employment**

In the Employment division, all the legacy contracts which had delivered established revenue, strong profit/cash generation in 2011 were terminated by September 2012. These were replaced with the new Work Programme and MWA contracts in the Midlands and a number of smaller Work Programme sub-contracts with Ingeus. 2012 saw the first year of these new contracts in operation and the associated set up and establishment costs. Due to the funding model for the Work Programme with a small upfront start payment per client and the majority of the payment commencing after either 3 or 6 months in work for a period of up to 2 years, revenue streams were low in 2012 with no expectation of profit in the first year of operation. In addition, the referral numbers from the DWP were significantly below expectation leading to reduced margins for ESG's internal delivery and a requirement to adapt the fixed cost base accordingly.

# **ESG Holdings Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

Whereas legacy contracts were delivered internally the new contracts saw a significant shift for the Employment division towards subcontracted delivery which was an appropriate risk strategy but led to reduced margins for the business. In 2012 70% of revenue was delivered through sub-contractors compared to less than 10% in 2011.

2012 was a year of significant change within Employment with the closure of 15 Employment sites. This level of activity was a distraction for operational teams and was cost intensive.

However, performance on both the Work Programme and MWA contracts has been ahead of expectations in the second half of 2012 and into 2013 and ESG is well above the national average as a provider on both programmes. The results of the significant amount of job activity in 2012 will be seen in the results in 2013.

Following the year end we were also awarded 2 new SFA contracts in the North West to deliver services to the unemployed and there are a number of additional subcontracting opportunities in the pipeline. 2013 has seen the employment and skills businesses coming together much more closely as flexibilities on the use of SFA funds continue to widen and ESG is able to capitalise on its position as a provider of an end to end service for both employers and clients.

### **Re-finance**

This substantial period of change led to poor trading results and working capital challenges which triggered a requirement to revisit the debt structure during the year. A lengthy period of negotiation took place between the former majority shareholder, Sovereign Capital LLP and Ares Capital Europe Limited.

Prior to the re-finance ESG went through a 12 month period of merger with a sister company under the ownership of Sovereign Capital LLP. A number of support functions were combined and by the time of the re-finance ESG provided the IT, Finance, HR, Call centre, Audit and Quality functions for Paragon Education and Skills Limited. The re-finance brought a change of majority shareholder and following the work to merge operations, this necessitated a de-merger.

Both of these activities took up considerable management time and focus. On the 23 July 2012 the majority shareholding in the group was acquired by Orca (SPV) Limited, a company controlled by Ares Capital Europe Limited. A new loan agreement was drawn up with Ares Capital Europe (Luxembourg) SARL which allowed for a write down of the existing debt, a new cash injection and deferral of interest and capital loan payments. At the year end £2.6m of unutilised new cash was still available to draw down under the agreement.

Following the refinancing Joanna Dobson was appointed as Finance Director of the group. Joanna is a chartered accountant with 8 years' experience in the education sector.

Ares Capital Europe Limited undertook extensive due diligence as part of the re-finance, understand the business model and are supportive of the changes that have been made and that will be required in 2013 to underpin the turnaround and lead to a more profitable business model for the future.

### **Business development and Future Outlook**

In June 2012 the business was awarded an SFA contract in the North West to deliver sector support for the unemployed and in July 2012 was awarded a DWP contract in the North West to deliver targeted support to the unemployed.

These contracts support our strategy of bringing the Skills and Employment businesses closer together to create a broad offering which can be tailored to the needs of the client. Numerous opportunities exist for the business to grow in the near future through bidding for further work in its existing markets.

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.

# **ESG Holdings Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

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

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. We have visibility of a number of new tendering opportunities for 2013 both with existing and new funding organisations 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 external 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. In addition data security and contract funding compliance are seen as the key internal risks and the group has a robust structure and set of processes for monitoring and assessing these risks

### **Going concern**

Following the disappointing results for the year, the change of ownership and the re-finance of the debt, revised budgets have been prepared which show that the new debt structure 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 signing these financial statements and after receiving written support from Ares Capital Europe (Luxembourg) SARL, 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 2012 (2011: £nil)

# ESG Holdings Limited

## Directors' report for the year ended 31 July 2012 (continued)

### Directors

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

|             |                             |
|-------------|-----------------------------|
| G Freed     |                             |
| J Ferguson  | (appointed 23 July 2012)    |
| M Dennis    | (appointed 23 July 2012)    |
| PD Brett    | (resigned 25 November 2011) |
| RJH Robson  | (resigned 25 November 2011) |
| J Rodriguez | (resigned 23 July 2012)     |
| M Thurston  | (resigned 1 August 2012)    |
| M Corden    | (resigned 23 July 2012)     |
| J Sharpe    | (resigned 30 November 2011) |

A Benton and J Dobson were appointed as directors on 1 August 2012 and 3 October 2012 respectively

### 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 mean 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. Daily, weekly and monthly cash flow forecasts are prepared which forecast 12 months ahead and are continually monitored.

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 group and company and of the profit or loss of the group 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 2012 (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 the group 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 the group 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

29 January 2013

# **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 2012 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 Statement of Directors' Responsibilities set out on pages 6 and 7 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 and financial statements 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 2012 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.

## **ESG Holdings Limited**

### **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  
31 January 2013

## ESG Holdings Limited

### Consolidated profit and loss account for the year ended 31 July 2012

|                                                        | Note | 2012<br>£'000   | 2011<br>£'000 |
|--------------------------------------------------------|------|-----------------|---------------|
| <b>Turnover – continuing operations</b>                | 1    | <b>26,348</b>   | 40,490        |
| Cost of sales                                          |      | (18,694)        | (23,861)      |
| <b>Gross profit</b>                                    |      | <b>7,654</b>    | 16,629        |
| Exceptional administrative expenses                    | 2    | (1,743)         | -             |
| Other administrative expenses                          |      | (12,795)        | (15,638)      |
| <b>Total administrative expenses</b>                   |      | <b>(14,538)</b> | (15,638)      |
| <b>Operating (loss)/profit – continuing operations</b> | 2    | <b>(6,884)</b>  | 991           |
| Interest receivable and similar income                 |      | 12              | 45            |
| Interest payable and similar charges                   | 4    | (3,395)         | (3,083)       |
| <b>Loss on ordinary activities before taxation</b>     |      | <b>(10,267)</b> | (2,047)       |
| Tax on loss on ordinary activities                     | 5    | 624             | (26)          |
| <b>Loss for the financial year</b>                     | 16   | <b>(9,643)</b>  | (2,073)       |

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

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

# ESG Holdings Limited

## Consolidated balance sheet as at 31 July 2012

|                                                                | Note | 2012<br>£'000   | 2011<br>£'000   |
|----------------------------------------------------------------|------|-----------------|-----------------|
| <b>Fixed assets</b>                                            |      |                 |                 |
| Intangible assets                                              | 7    | 10,849          | 13,131          |
| Tangible assets                                                | 8    | 1,409           | 1,290           |
|                                                                |      | <b>12,258</b>   | <b>14,421</b>   |
| <b>Current assets</b>                                          |      |                 |                 |
| Debtors                                                        | 10   | 4,075           | 4,991           |
| Cash at bank and in hand                                       |      | 379             | 1,530           |
|                                                                |      | <b>4,454</b>    | <b>6,521</b>    |
| <b>Creditors amounts falling due within one year</b>           | 11   | <b>(5,711)</b>  | <b>(24,941)</b> |
| <b>Net current liabilities</b>                                 |      | <b>(1,257)</b>  | <b>(18,420)</b> |
| <b>Total assets less current liabilities</b>                   |      | <b>11,001</b>   | <b>(3,999)</b>  |
| <b>Creditors: amounts falling due after more than one year</b> | 12   | <b>(17,569)</b> | <b>(750)</b>    |
| <b>Provisions for liabilities and charges</b>                  | 14   | <b>(1,301)</b>  | <b>(1,465)</b>  |
| <b>Net liabilities</b>                                         |      | <b>(7,869)</b>  | <b>(6,214)</b>  |
| <b>Capital and reserves</b>                                    |      |                 |                 |
| Called up share capital                                        | 15   | 1               | 1               |
| Share premium account                                          | 16   | 8,068           | 80              |
| Other reserves                                                 | 16   | 1,343           | 1,343           |
| Profit and loss account                                        | 16   | (17,281)        | (7,638)         |
| <b>Total shareholders' deficit</b>                             | 17   | <b>(7,869)</b>  | <b>(6,214)</b>  |

These financial statements on pages 10 to 34 were approved by the board of directors on the 29 January 2013 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 2012

|                                                         | Note | 2012<br>£'000 | 2011<br>£'000 |
|---------------------------------------------------------|------|---------------|---------------|
| <b>Fixed assets</b>                                     |      |               |               |
| Intangible assets                                       | 7    | 251           | 317           |
| Tangible assets                                         | 8    | 151           | 175           |
| Investments                                             | 9    | 1             | 1             |
|                                                         |      | <b>403</b>    | <b>493</b>    |
| <b>Current assets</b>                                   |      |               |               |
| Debtors                                                 | 10   | 11,403        | 2,611         |
| Cash at bank and in hand                                |      | 66            | 293           |
|                                                         |      | <b>11,469</b> | <b>2,904</b>  |
| Creditors' amounts falling due within one year          | 11   | (2,768)       | (1,524)       |
| <b>Net current assets</b>                               |      | <b>8,701</b>  | <b>1,380</b>  |
| <b>Total assets less current liabilities</b>            |      | <b>9,104</b>  | <b>1,873</b>  |
| Creditors' amounts falling due after more than one year | 12   | -             | (750)         |
| <b>Net assets</b>                                       |      | <b>9,104</b>  | <b>1,123</b>  |
| <b>Capital and reserves</b>                             |      |               |               |
| Called up share capital                                 | 15   | 1             | 1             |
| Share premium account                                   | 16   | 8,068         | 80            |
| Profit and loss account                                 | 16   | 1,035         | 1,042         |
| <b>Total shareholders' funds</b>                        | 17   | <b>9,104</b>  | <b>1,123</b>  |

These financial statements on pages 10 to 34 were approved by the board of directors on the 29 January 2013 and were signed on its behalf by



G Freed  
Director

ESG Holdings Limited

Registered number 06397426

## ESG Holdings Limited

### Consolidated cash flow statement for the year ended 31 July 2012

|                                                        | Cash flow<br>note | 2012<br>£'000  | 2011<br>£'000 |
|--------------------------------------------------------|-------------------|----------------|---------------|
| <b>Cash (outflow)/inflow from operating activities</b> | 2                 | <b>(4,203)</b> | 6,702         |
| Returns on investments and servicing of finance        | 3                 | <b>(744)</b>   | (2,395)       |
| Taxation                                               |                   | <b>618</b>     | (1,197)       |
| Capital expenditure                                    | 3                 | <b>(497)</b>   | (874)         |
| <b>Net cash (outflow)/inflow before financing</b>      |                   | <b>(4,826)</b> | 2,236         |
| Financing                                              | 3                 | <b>3,675</b>   | (4,006)       |
| <b>Decrease in cash in the year</b>                    |                   | <b>(1,151)</b> | (1,770)       |

# ESG Holdings Limited

## Notes to the consolidated cash flow statement for the year ended 31 July 2012

### 1 Reconciliation of net cash flow to movement in net debt

|                                                        |   |                 |                 |
|--------------------------------------------------------|---|-----------------|-----------------|
| Decrease in cash in the year                           | 4 | (1,151)         | (1,770)         |
| Cash (inflow)/outflow from (increase)/decrease in debt | 4 | (3,675)         | 3,981           |
| Change in net debt resulting from cash flows           |   | (4,826)         | 2,211           |
| Non cash movements                                     |   |                 |                 |
| – amortisation of issue costs                          | 4 | (865)           | (668)           |
| – interest rolled up                                   | 4 | (1,863)         | -               |
| – loan notes exchanged for shares                      | 4 | 7,988           | -               |
| - loan notes issued in exchange for contract guarantee |   | -               | (750)           |
| <b>Movement in net debt in the year</b>                |   | <b>434</b>      | <b>793</b>      |
| <b>Net debt at 1 August</b>                            | 4 | <b>(17,624)</b> | <b>(18,417)</b> |
| <b>Net debt at 31 July</b>                             | 4 | <b>(17,190)</b> | <b>(17,624)</b> |

£7,675,000 of loans and loan notes together with £313,000 of accrued interest were exchanged for shares in the company

### 2 Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

|                                                            | 2012           | 2011         |
|------------------------------------------------------------|----------------|--------------|
|                                                            | £'000          | £'000        |
| Operating (loss)/profit                                    | (6,884)        | 991          |
| Depreciation charges                                       | 805            | 694          |
| Loss/(profit) on disposal of fixed assets                  | 25             | (5)          |
| Amortisation of goodwill                                   | 2,216          | 2,216        |
| Facility fees rolled into debt                             | 126            | -            |
| Decrease in debtors                                        | 922            | 836          |
| (Decrease)/increase in creditors                           | (1,413)        | 1,970        |
| <b>Net cash (outflow)/inflow from operating activities</b> | <b>(4,203)</b> | <b>6,702</b> |



# ESG Holdings Limited

## Notes to the consolidated cash flow statement for the year ended 31 July 2012 (continued)

### 3 Analysis of cash flows

|                                                        | 2012         | 2011           |
|--------------------------------------------------------|--------------|----------------|
|                                                        | £'000        | £'000          |
| <b>Returns on investments and servicing of finance</b> |              |                |
| Interest received                                      | 12           | 45             |
| Interest paid                                          | (539)        | (2,440)        |
| Loan issue costs paid                                  | (217)        | -              |
|                                                        | <b>(744)</b> | <b>(2,395)</b> |
| <b>Capital expenditure</b>                             |              |                |
| Purchase of tangible fixed assets                      | (497)        | (557)          |
| Purchase of intangible assets                          | (2)          | (323)          |
| Sale of tangible fixed assets                          | 2            | 6              |
|                                                        | <b>(497)</b> | <b>(874)</b>   |
| <b>Financing</b>                                       |              |                |
| Repurchase of own shares                               | -            | (25)           |
| Loans advanced                                         | 3,675        | -              |
| Loan repayments in the year                            | -            | (3,981)        |
|                                                        | <b>3,675</b> | <b>(4,006)</b> |

# ESG Holdings Limited

## Notes to the consolidated cash flow statement for the year ended 31 July 2012 (continued)

### 4 Analysis of net debt

|                                  | 31<br>July 2011 | Cash flow      | Non cash<br>movements | 31<br>July 2012 |
|----------------------------------|-----------------|----------------|-----------------------|-----------------|
|                                  | £'000           | £'000          | £'000                 | £'000           |
| <b>Cash</b>                      |                 |                |                       |                 |
| Cash at bank and in hand         | 1,530           | (1,151)        | -                     | <b>379</b>      |
| <b>Debt</b>                      |                 |                |                       |                 |
| Debt falling due within one year | (18,404)        | -              | 18,404                | -               |
| Debt falling due after one year  | (750)           | (3,675)        | (13,144)              | <b>(17,569)</b> |
|                                  | (19,154)        | (3,675)        | 5,260                 | <b>(17,569)</b> |
| <b>Net debt</b>                  | <b>(17,624)</b> | <b>(4,826)</b> | <b>5,260</b>          | <b>(17,190)</b> |

Non-cash movements comprise amounts exchanged for shares of £7,988,000 less amortisation of issue costs of £865,000 and rolled up interest and fees of £1,863,000

# **ESG Holdings Limited**

## **Notes to the financial statements for the year ended 31 July 2012**

### **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, which have been consistently applied, is set out below.

#### **Basis of preparation**

These financial statements have been prepared under the going concern basis and historical cost convention. On the 23 July 2012 the majority shareholding in the group was acquired by Orca (SPV) Limited, a company controlled by Ares Capital Europe Limited. A new loan agreement has been drawn up with Ares Capital Europe (Luxembourg) SARL which allowed 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. 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 ESG Corporate Services Limited (formerly named 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.

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 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.

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 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 (loss)/profit

The operating (loss)/profit is stated after charging.

|                                                                                        | 2012  | 2011  |
|----------------------------------------------------------------------------------------|-------|-------|
|                                                                                        | £'000 | £'000 |
| Operating Leases                                                                       |       |       |
| - Plant and machinery                                                                  | 28    | 48    |
| - Land and buildings                                                                   | 836   | 1,599 |
| Depreciation of tangible fixed assets                                                  | 737   | 688   |
| Loss/(profit) on disposal of fixed assets                                              | 25    | (5)   |
| Goodwill amortisation                                                                  | 2,216 | 2,216 |
| Exceptional expenses in respect of non-recurring facility fees and restructuring costs | 1,783 | -     |
| Amortisation of intangible assets                                                      | 68    | 6     |
| Auditors' remuneration                                                                 |       |       |
| - for audit of parent company and consolidation                                        | 16    | 8     |
| - for audit of subsidiaries pursuant to legislation                                    | 39    | 47    |
| - for taxation compliance services                                                     | 15    | 10    |
| - for taxation advisory services                                                       | 28    | -     |
| - for other assurance services                                                         | 85    | -     |

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

All interest receivable relates to bank balances

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 2 Operating (loss)/profit (continued)

| Directors emoluments                            | 2012  | 2011  |
|-------------------------------------------------|-------|-------|
|                                                 | £'000 | £'000 |
| Aggregate emoluments                            | 349   | 424   |
| Compensation for loss of office                 | -     | 80    |
| Pension contributions to money purchase schemes | 1     | 4     |
|                                                 | 350   | 508   |

The number of directors to whom retirement benefits were accruing under defined contribution schemes was 1 director (2011 3)

Information regarding the highest paid director is as follows

|                      | 2012  | 2011  |
|----------------------|-------|-------|
|                      | £'000 | £'000 |
| Aggregate emoluments | 195   | 108   |

### 3 Staff costs

|                       | 2012   | 2011   |
|-----------------------|--------|--------|
|                       | £'000  | £'000  |
| Wages and salaries    | 14,170 | 17,548 |
| Social security costs | 1,279  | 1,618  |
| Other pension costs   | 51     | 34     |
|                       | 15,500 | 19,200 |

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

|                         | 2012  | 2011  |
|-------------------------|-------|-------|
|                         | £'000 | £'000 |
| By activity             |       |       |
| Operations and support  | 173   | 203   |
| Training and assessment | 416   | 584   |
|                         | 589   | 787   |

## ESG Holdings Limited

### Notes to the financial statements for the year ended 31 July 2012 (continued)

#### 4 Interest payable and similar charges

|                                                                                    | 2012  | 2011  |
|------------------------------------------------------------------------------------|-------|-------|
|                                                                                    | £'000 | £'000 |
| Bank interest and similar charges                                                  | -     | 77    |
| Other loan interest                                                                | 2,284 | 2,253 |
| Amortisation of loan issue costs (including amounts fully expensed on refinancing) | 1,082 | 675   |
| Monitoring costs (note 19)                                                         | 29    | 78    |
|                                                                                    | 3,395 | 3,083 |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 5 Taxation

#### Analysis of tax (credit)/charge

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

|                                                                                                                                                                            | 2012     | 2011    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|
|                                                                                                                                                                            | £'000    | £'000   |
| <b>Current tax</b>                                                                                                                                                         |          |         |
| UK Corporation tax at 25 33% (2011 27 33%)                                                                                                                                 | (706)    | 128     |
| Over provision in prior year                                                                                                                                               | (38)     | (63)    |
|                                                                                                                                                                            | (744)    | 65      |
| <b>Deferred tax</b>                                                                                                                                                        |          |         |
| Adjustment to the estimated recoverable asset arising in prior periods                                                                                                     | 120      | -       |
| Origination and reversal of timing differences (note 14)                                                                                                                   | -        | (39)    |
|                                                                                                                                                                            | 120      | (39)    |
| <b>Tax on loss on ordinary activities</b>                                                                                                                                  | (624)    | 26      |
| <b>Factors affecting the tax charge</b>                                                                                                                                    |          |         |
| The tax assessed for the year is lower than (2011 differs from) the standard rate of corporation tax in the UK of 25 33% (2011 27 33%) The differences are explained below |          |         |
|                                                                                                                                                                            | 2012     | 2011    |
|                                                                                                                                                                            | £'000    | £'000   |
| Loss on ordinary activities before tax                                                                                                                                     | (10,267) | (2,047) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25 33% (2011 27 33%)                                                           | (2,601)  | (559)   |
| <b>Effects of</b>                                                                                                                                                          |          |         |
| Depreciation in excess of capital allowances                                                                                                                               | 72       | 82      |
| Expenditure not allowable for tax purposes including goodwill amortisation                                                                                                 | 875      | 605     |
| Losses carried forward                                                                                                                                                     | 948      | -       |
| Over provision in prior year                                                                                                                                               | (38)     | (63)    |
| <b>Current tax (credit)/charge</b>                                                                                                                                         | (744)    | 65      |



# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 5 Taxation (continued)

A number of changes to the UK Corporation tax system were announced in the March 2012 Budget Statement. The rate of corporation tax was reduced from 26% to 24% with effect from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was substantively enacted in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate by 2% to 21% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

### 6 Loss 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 £7,000 (2011: loss of £51,000) (note 16).

### 7 Intangible fixed assets

| Group                           | Project costs | Goodwill      | Total         |
|---------------------------------|---------------|---------------|---------------|
|                                 | £'000         | £'000         | £'000         |
| <b>Cost</b>                     |               |               |               |
| At 1 August 2011                | 323           | 22,122        | 22,445        |
| Additions                       | 2             | -             | 2             |
| <b>At 31 July 2012</b>          | <b>325</b>    | <b>22,122</b> | <b>22,447</b> |
| <b>Accumulated amortisation</b> |               |               |               |
| At 1 August 2011                | 6             | 9,308         | 9,314         |
| Charge for the year             | 68            | 2,216         | 2,284         |
| <b>At 31 July 2012</b>          | <b>74</b>     | <b>11,524</b> | <b>11,598</b> |
| <b>Net book value</b>           |               |               |               |
| <b>At 31 July 2012</b>          | <b>251</b>    | <b>10,598</b> | <b>10,849</b> |
| At 31 July 2011                 | 317           | 12,814        | 13,131        |

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

The project costs shown above with a net book due of £251,000 (2011: £317,000) are an intangible fixed asset held by the company.

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 8 Tangible fixed assets

| Group                           | Leasehold<br>improve-<br>ments | Fixtures,<br>fittings &<br>office<br>equipment | Motor<br>vehicles | Computer<br>equipment | Total        |
|---------------------------------|--------------------------------|------------------------------------------------|-------------------|-----------------------|--------------|
|                                 | £'000                          | £'000                                          | £'000             | £'000                 | £'000        |
| <b>Cost</b>                     |                                |                                                |                   |                       |              |
| At 1 August 2011                | 761                            | 790                                            | 8                 | 2,293                 | 3,852        |
| Additions                       | 193                            | 37                                             | -                 | 653                   | 883          |
| Disposals                       | (133)                          | (83)                                           | -                 | (783)                 | (999)        |
| <b>At 31 July 2012</b>          | <b>821</b>                     | <b>744</b>                                     | <b>8</b>          | <b>2,163</b>          | <b>3,736</b> |
| <b>Accumulated depreciation</b> |                                |                                                |                   |                       |              |
| At 1 August 2011                | 393                            | 546                                            | 8                 | 1,615                 | 2,562        |
| Charge for year                 | 148                            | 146                                            | -                 | 443                   | 737          |
| Disposals                       | (133)                          | (77)                                           | -                 | (762)                 | (972)        |
| <b>At 31 July 2012</b>          | <b>408</b>                     | <b>615</b>                                     | <b>8</b>          | <b>1,296</b>          | <b>2,327</b> |
| <b>Net book value</b>           |                                |                                                |                   |                       |              |
| <b>At 31 July 2012</b>          | <b>413</b>                     | <b>129</b>                                     | <b>-</b>          | <b>867</b>            | <b>1,409</b> |
| At 31 July 2011                 | 368                            | 244                                            | -                 | 678                   | 1,290        |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 8 Tangible fixed assets (continued)

| Company                         | Computer<br>equipment |
|---------------------------------|-----------------------|
|                                 | £'000                 |
| <b>Cost</b>                     |                       |
| At 1 August 2011                | 178                   |
| Additions                       | 18                    |
| <b>At 31 July 2012</b>          | <b>196</b>            |
| <b>Accumulated depreciation</b> |                       |
| At 1 August 2011                | 3                     |
| Charge for year                 | 42                    |
| <b>At 31 July 2012</b>          | <b>45</b>             |
| <b>Net book value</b>           |                       |
| <b>At 31 July 2012</b>          | <b>151</b>            |
| At 31 July 2011                 | 175                   |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 9 Fixed asset investments

| Company                          | Shares in<br>group<br>undertakings<br><br>£'000 |
|----------------------------------|-------------------------------------------------|
| <b>Cost</b>                      |                                                 |
| At 31 July 2011 and 31 July 2012 | 1                                               |
| <b>Net book value</b>            |                                                 |
| At 31 July 2011 and 31 July 2012 | 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<br>holding                 |
|----------------------------------------------------------------------|-----------------------------------------------|------------------|------------------------------------|
| ESG Intermediate Holdings Limited                                    | Intermediate holding company                  | Direct holding   | Ordinary – 100<br>Preferred – 100  |
| Sencia Limited                                                       | Provision of training and employment services | Indirect holding | Ordinary – 100<br>Preference – 100 |
| ESG Corporate Services Limited (formerly Sheffield Trainers Limited) | Administrative and management services        | Indirect holding | Ordinary – 100                     |
| Orient Gold Limited                                                  | Non trading subsidiary                        | 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 Ltd                                                | Non trading subsidiary                        | Indirect holding | Ordinary – 100                     |
| ESG (Skills) Limited                                                 | Vocational training from 1 August 2011        | Indirect holding | Ordinary – 100                     |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 10 Debtors

|                                    | 2012         |               | 2011         |              |
|------------------------------------|--------------|---------------|--------------|--------------|
|                                    | Group        | Company       | Group        | Company      |
|                                    | £'000        | £'000         | £'000        | £'000        |
| Trade debtors                      | 2,556        | 404           | 1,894        | 177          |
| Amounts owed by group undertakings | -            | 10,514        | -            | 970          |
| Other debtors                      | 56           | 3             | 342          | 144          |
| Prepayments and accrued income     | 840          | 482           | 2,138        | 694          |
| Corporation tax                    | 623          | -             | 497          | 625          |
| Deferred tax asset (note 14)       | -            | -             | 120          | 1            |
|                                    | <b>4,075</b> | <b>11,403</b> | <b>4,991</b> | <b>2,611</b> |

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

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 11 Creditors: amounts falling due within one year

|                                        | 2012  |         | 2011   |         |
|----------------------------------------|-------|---------|--------|---------|
|                                        | Group | Company | Group  | Company |
|                                        | £'000 | £'000   | £'000  | £'000   |
| Other loan (note 13)                   | -     | -       | 18,404 | -       |
| Trade creditors                        | 774   | -       | 1,483  | -       |
| Amounts owed to group undertakings     | -     | 1,776   | -      | 901     |
| Amounts owed to associate undertakings | -     | -       | 129    | -       |
| Taxation and social security           | 579   | 4       | 483    | -       |
| Other creditors                        | 882   | -       | 1,742  | -       |
| Accruals and deferred income           | 3,476 | 988     | 2,700  | 623     |
|                                        | 5,711 | 2,768   | 24,941 | 1,524   |

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

|                      | 2012   |         | 2011  |         |
|----------------------|--------|---------|-------|---------|
|                      | Group  | Company | Group | Company |
|                      | £'000  | £'000   | £'000 | £'000   |
| Other loan (note 13) | 17,569 | -       | 750   | 750     |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 13 Maturity of debt

An analysis of the maturity of loans is given below

|                                                  | 2012   |         | 2011   |         |
|--------------------------------------------------|--------|---------|--------|---------|
|                                                  | Group  | Company | Group  | Company |
|                                                  | £'000  | £'000   | £'000  | £'000   |
| <hr/>                                            |        |         |        |         |
| Amounts falling due within one year or on demand |        |         |        |         |
| Other loan                                       | -      | -       | 19,269 | -       |
| <hr/>                                            |        |         |        |         |
| Amounts falling due between one and two years    |        |         |        |         |
| Other loan                                       | 17,569 | -       | -      | -       |
| <hr/>                                            |        |         |        |         |
| Amounts falling due between two and five years   |        |         |        |         |
| Other loan                                       | -      | -       | 750    | 750     |
|                                                  | 17,569 |         | 20,019 | 750     |
| <hr/>                                            |        |         |        |         |
| Unamortised loan issue costs                     | -      | -       | (865)  | -       |
|                                                  | 17,569 | -       | 19,154 | 750     |
| <hr/>                                            |        |         |        |         |

The loan of £17.6m is secured by a fixed charge over the group's assets together with cross guarantees between all group companies

Interest is payable at 8% plus the higher of (i) 2% or (ii) LIBOR

An amended facilities agreement has been signed which has written down part of the previous debt in exchange for the issue of shares and allowed for the draw-down of additional cash of up to £2.6m. This defers interest and repayments until a loan redemption date of 31 January 2014.

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 14 Provisions for liabilities

| Group                  | Dilapidation<br>provisions | Other<br>provisions | Total        |
|------------------------|----------------------------|---------------------|--------------|
|                        | £'000                      | £'000               | £'000        |
| At 1 August 2011       | 519                        | 946                 | 1,465        |
| Utilised in the year   | (80)                       | (84)                | (164)        |
| <b>At 31 July 2012</b> | <b>439</b>                 | <b>862</b>          | <b>1,301</b> |

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<br>unrecognised | Group<br>recognised |
|----------------------------------|-----------------------|---------------------|
|                                  | 2012                  | 2011                |
|                                  | £'000                 | £'000               |
| Timing differences in respect of |                       |                     |
| Capital allowances               | 144                   | 120                 |
| Losses carried forward           | 918                   | -                   |
|                                  | <b>1,062</b>          | <b>120</b>          |

The potential asset at 31 July 2012 has not been recognised as the directors are, as yet, uncertain as to when £634,000 of this asset will be realised and believe it is unlikely that £428,000 of the asset will be realised

|                              | £'000    |
|------------------------------|----------|
| At 1 August 2011             | 120      |
| Charge for the year (note 5) | (120)    |
| <b>At 31 July 2012</b>       | <b>-</b> |

The company has no provisions for liabilities and charges



# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 15 Called up share capital

|                                                        | 2012     | 2011     |
|--------------------------------------------------------|----------|----------|
|                                                        | £'000    | £'000    |
| <b>Allotted, called up and fully paid</b>              |          |          |
| 1,029,216 Ordinary shares of £0.001 each               | 1        | -        |
| Nil (2011: 709,364) 'A' ordinary shares of £0.001 each | -        | 1        |
| Nil (2011: 278,679) 'B' ordinary shares of £0.001 each | -        | -        |
| Nil (2011: 20,584) 'C' ordinary shares of £0.001 each  | -        | -        |
| Nil (2011: 20,584) 'D' ordinary shares of £0.001 each  | -        | -        |
|                                                        | <b>1</b> | <b>1</b> |

On 23 July 2012 5 ordinary shares of £0.001 each were issued in return for the capitalisation of loan notes and accrued interest of £7,988,000

The A, B, C and D ordinary shares were all redesignated as equal ranking Ordinary shares of £0.001 each

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 16 Reserves

| Group                                   | Share<br>premium<br>account | Profit<br>and loss<br>account | Other<br>reserve |
|-----------------------------------------|-----------------------------|-------------------------------|------------------|
|                                         | £'000                       | £'000                         | £'000            |
| At 1 August 2011                        | 80                          | (7,638)                       | 1,343            |
| Premium on capitalisation of loan notes | 7,988                       | -                             | -                |
| Loss for the financial year             | -                           | (9,643)                       | -                |
| <b>At 31 July 2012</b>                  | <b>8,068</b>                | <b>(17,281)</b>               | <b>1,343</b>     |

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<br>premium<br>account | Profit<br>and loss<br>account |
|-----------------------------------------|-----------------------------|-------------------------------|
|                                         | £'000                       | £'000                         |
| At 1 August 2011                        | 80                          | 1,042                         |
| Premium on capitalisation of loan notes | 7,988                       | -                             |
| Loss for the financial year             | -                           | (7)                           |
| <b>At 31 July 2012</b>                  | <b>8,068</b>                | <b>1,035</b>                  |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 17 Reconciliation of movements in total shareholders' deficit

| Group                                               | 2012           | 2011           |
|-----------------------------------------------------|----------------|----------------|
|                                                     | £'000          | £'000          |
| Loss for the financial year                         | (9,643)        | (2,073)        |
| Shares repurchased in the year                      | -              | (25)           |
| Capitalisation of loan notes                        | 7,988          | -              |
| <b>Net reduction in total shareholders' deficit</b> | <b>(1,655)</b> | <b>(2,098)</b> |
| Opening total shareholders' deficit                 | (6,214)        | (4,116)        |
| <b>Closing total shareholders' deficit</b>          | <b>(7,869)</b> | <b>(6,214)</b> |

  

| Company                                                        | 2012         | 2011         |
|----------------------------------------------------------------|--------------|--------------|
|                                                                | £'000        | £'000        |
| Loss for the financial year                                    | (7)          | (51)         |
| Capitalisation of loan notes                                   | 7,988        | -            |
| Shares repurchased in the year                                 | -            | (25)         |
| <b>Net addition / (reduction) to total shareholders' funds</b> | <b>7,981</b> | <b>(76)</b>  |
| Opening total shareholders' funds                              | 1,123        | 1,199        |
| <b>Closing total shareholders' funds</b>                       | <b>9,104</b> | <b>1,123</b> |

# ESG Holdings Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 18 Lease commitments

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

|                               | Land and buildings |       | Other |       |
|-------------------------------|--------------------|-------|-------|-------|
|                               | 2012               | 2011  | 2012  | 2011  |
|                               | £'000              | £'000 | £'000 | £'000 |
| <b>Under leases expiring:</b> |                    |       |       |       |
| Within one year               | 38                 | 44    | -     | 7     |
| Between two and five years    | 777                | 599   | 91    | 46    |
|                               | 815                | 643   | 91    | 53    |

### 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

Fees of £126,000 were paid to Ares Capital Europe (Luxembourg) SARL, for whom Ares Capital Europe Limited acts as agent, in respect of the new amended loan facility. An amount of £17,569,000 was owed at 31 July 2012 and interest of £1,955,143 was payable in respect of the year

Fees of £29,074 (2011 £78,000) in respect of the financing and investments, were paid to Sovereign Capital Partners LLP in the year, an entity which managed the A shareholders' funds during the year and an entity in which J Rodriguez and RJH Robson (both directors during the year), have an interest

Sovereign Capital Partners LLP advanced cash of £1.9m in the year and were issued a £5m loan note (2011 £0.75m loan note) which combined with accrued interest of £0.3m created a liability of £8m. This was later exchanged for 11 shares of £0.001 each in Orca (SPV) Limited, with no liability outstanding at the year end

During the year the Group traded with Paragon Education and Skills Limited, another company controlled by Sovereign Capital Partners LLP. £682,940 was invoiced by Paragon Education and Skills Limited for services delivered and a net amount of £125,622 was charged to Paragon Education and Skills Limited in respect of cost recharges

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 and Ares Capital LLP the ultimate controlling undertaking. Prior to this, Sovereign Capital Partners LLP managed the interests of the Sovereign Capital funds who were the principal shareholders. ESG Holdings Limited is the only group undertaking preparing consolidated financial statements including the company and its subsidiaries as of 31 July 2012