ESG Intermediate Holdings Limited

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

Registered number 06397427

ESG Intermediate Holdings Limited

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

ESG Intermediate 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 Intermediate Holdings Limited

Directors' report
for the year ended 31 July 2011

The directors present their annual report and the audited financial statements for the year ended 31 July 2011 The company is registered as number 06397427

Principal activity

The principal activity of the company was that of intermediate holding company for a group engaged in the provision and management of training and employment services

Results and dividends

The results for the year are set out on page 6 Dividends of £Nil have been paid for the year ended 31 July 2011 (2010 £16,250,000)

Post balance sheet event

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

Directors

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

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)
A Holmes (resigned 29 October 2010)
M Rigby (resigned 30 November 2010)
R Shepherd (resigned 25 May 2011)

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 Intermediate 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

Independent auditors' report to the members of ESG Intermediate Holdings Limited

We have audited the financial statements of ESG Intermediate Holdings Limited for the year ended 31 July 2011 which comprise the profit and loss account, the balance sheet 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 on pages 2 and 3 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 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 company's affairs as at 31 July 2011 and of its loss 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 Intermediate 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors report

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

25 July 2012

ESG Intermediate Holdings Limited

Profit and loss account
for the year ended 31 July 2011

	Note	2011	2010
		£	£
Administrative expenses		**(58,924)**	(35,104)
Operating loss – continuing	2	**(58,924)**	(35,104)
Amounts written off investments	6	**(6,000,000)**	-
Income from shares in group undertakings		-	17,000,000
Interest receivable and similar income	3	**1,572**	-
Interest payable and similar charges	4	**(3,005,449)**	(1,769,378)
(Loss)/profit on ordinary activities before taxation		**(9,062,801)**	15,195,518
Tax on loss/(profit) on ordinary activities	5	**816,683**	515,628
(Loss)/profit for the financial year	13	**(8,246,118)**	15,711,146

The company has no recognised gains and losses other than the loss for the current year

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

ESG Intermediate Holdings Limited

Balance sheet
as at 31 July 2011

	Note	**2011**	2010
		£	£
Fixed assets			
Investments	6	**14,646,908**	20,646,908
Tangible assets	7	**154,720**	173,084
		14,801,628	20,819,992
Current assets			
Debtors	8	**4,764,476**	5,820,386
Cash at bank and in hand		**44,609**	3,305,913
		4,809,085	9,126,299
Creditors: amounts falling due within one year	9	**(27,880,315)**	**(12,175,478)**
Net current liabilities		**(23,071,230)**	(3,049,179)
Total assets less current liabilities		**(8,269,602)**	17,770,813
Creditors: amounts falling due after more than one year	10	**-**	**(17,841,678)**
Provisions for liabilities and charges	11	**(68,757)**	(21,376)
Net liabilities		**(8,338,359)**	(92,241)
Capital and reserves			
Called up share capital	12	**413,893**	413,893
Profit and loss account	13	**(8,752,252)**	(506,134)
Total shareholder's deficit	14	**(8,338,359)**	(92,241)

These financial statements on pages 6 to 16 were approved by the board of directors on the 24th July 2012 and were signed on its behalf by

G Freed
Director

ESG Intermediate Holdings Limited

Registered number 06397427

ESG Intermediate Holdings Limited

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

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting and financial reporting standards in the United Kingdom and the Companies Act 2006 A summary of the more important accounting policies is set out below

Basis of preparation

These financial statements have been prepared under the historical cost convention

The company is included in the consolidated financial statements of its parent company, ESG Holdings Limited, and has taken advantage of the exemption from preparing consolidated accounts allowed by the Companies Act 2006 and the cash flow statement exemption under Financial Reporting Standard 1

Going concern

These financial statements have been prepared under the going concern basis and historical cost convention Whilst the company has net current and net liabilities the terms of its external loan have been amended (see note 10) and it is supported by fellow group companies 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 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

Investments

Investments are carried at cost including related acquisition expenses with an appropriate provision to reflect any impairment in value that has occurred Any contingent consideration is included at the amount expected to be settled

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

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

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

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

2 Operating loss

The company has no employees (2010 none) other than the directors who received no emoluments for their services to the company The auditors' remuneration for the company, together with certain other administrative expenses, has been borne by another group undertaking and not recharged

3 Interest receivable and similar income

	2011	2010
	£	£
Interest receivable from group undertakings	**1,572**	-

4 Interest payable and similar charges

	2011	2010
	£	£
Bank interest and similar charges	**77,210**	474,213
Interest on other loans	**2,252,788**	883,562
Amortisation of loan issue costs	**675,451**	411,603
	3,005,449	1,769,378

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

5 Tax on (loss)/profit on ordinary activities

Analysis of tax

The tax credit on the loss (2010 profit) on ordinary activities for the year is as follows

	2011	2010
	£	£
Current tax		
UK Corporation tax	**834,008**	522,245
Over provision in prior year	**(2,739)**	10,373
	831,269	532,618
Deferred tax		
Origination and reversal of timing differences	**(14,586)**	(16,990)
	(14,586)	(16,990)
Tax on profit on ordinary activities	**816,683**	515,628

Factors affecting the tax

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
	£	£
(Loss)/profit on ordinary activities before tax	**(9,062,801)**	15,195,518
(Loss)/profit on ordinary activities multiplied by the standard rate of tax in the UK of 27 33% (2010 28%)	**(2,476,864)**	4,254,745
Effects of		
Impairment not tax deductible	**1,639,698**	-
Income received not taxable	-	(4,760,000)
Depreciation in excess of capital allowances	**3,158**	(16,990)
Over provision in prior year	**2,739**	(10,373)
Current tax credit	**(831,269)**	(532,618)

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

6 Investments

	Total
	£
Cost	
At 1 August 2010 and 31 July 2011	20,646,908
Impairment	
Provision made in year and at the end of the year	(6,000,000)
Net book value	
At 31 July 2011	**14,646,908**
At 31 July 2010	20,646,908

The directors have evaluated the carrying value of investments in subsidiaries in view of current trading and consider that an impairment of £6,000,000 arises

The company holds the share capital of the following principal companies incorporated in England and Wales (*indirectly)

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

7 Tangible fixed assets

	Leasehold improvements £
Cost	
At 1 August 2010	190,508
Additions	895
At 31 July 2011	**191,403**
Accumulated depreciation	
At 1 August 2010	17,424
Charge for year	19,259
At 31 July 2011	**36,683**
Net book value	
At 31 July 2011	**154,720**
At 31 July 2010	173,084

8 Debtors

	2011 £	2010 £
Amounts owed by group undertakings	**4,738,080**	4,738,080
Prepayments and accrued income	**26,396**	27,312
Corporation tax receivable	-	194,994
Other debtors	-	860,000
	4,764,476	5,820,386

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

9 Creditors: amounts falling due within one year

	2011	2010
	£	£
Other loan	**18,404,366**	3,875,000
Amounts owed to group undertakings	**9,270,838**	8,185,045
Social Security and other taxes	**193,387**	-
Accruals and deferred income	**11,724**	115,433
	27,880,315	12,175,478

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

10 Creditors: amounts falling due after more than one year

	2011	2010
	£	£
Other loan	-	17,841,678

An analysis of the maturity of the loans is given below

	2011	2010
	£	£
In less than one year	**19,269,000**	3,875,000
Between one and two years	-	6,875,000
Between two and five years	-	12,500,000
	19,269,000	23,250,000
Unamortised loan issue costs	**(864,634)**	(1,533,322)
	18,404,366	21,716,678

The loan is secured by a fixed charge over the assets of the parent company, ESG Holdings Limited, 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 all became payable 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

ESG Intermediate Holdings Limited

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

11 Provisions for liabilities and charges

	2011	2010
	£	£
Dilapidations provisions	**37,181**	4,386
Deferred tax	**31,576**	16,990
	68,757	21,376

Dilapidations provisions relate to claims expected to arise at the end of property leases

	£
At 1 August 2010	4,386
Charge for the year	32,795
At 31 July 2011	**37,181**

Deferred taxation

	2011	2010
Timing differences in respect of	£	£
Capital allowances	**14,586**	16,990

	£
At 1 August 2010	16,990
Charge for the year (note 5)	14,586
At 31 July 2011	**31,576**

ESG Intermediate Holdings Limited

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

12 Called up share capital

	2011	2010
	£	£
Authorised, allotted and fully paid		
778,829 'A' ordinary shares of £0 01 each	**7,788**	7,788
200,000 'B' ordinary shares of £0 01 each	**2,000**	2,000
50,000 'C' ordinary shares of £0 01 each	**500**	500
403,605 preferred shares of £1 00 each	**403,605**	403,605
	413,893	413,893

The shares all rank equally in respect of dividend and other rights

13 Profit and loss account reserve

	£
At 1 August 2010	(506,134)
Loss for the financial year	(8,246,118)
At 31 July 2011	**(8,752,252)**

14 Reconciliation of movements on total shareholder's (deficit)/funds

	2011	2010
	£	£
(Loss)/profit for the financial year	**(8,246,118)**	15,711,146
Dividends paid	-	(16,250,000)
Net reduction in total shareholders' funds	**(8,246,118)**	(538,854)
Opening total shareholders' (deficit) / funds	**(92,241)**	446,613
Closing total shareholder's deficit	**(8,338,359)**	(92,241)

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

15 Lease commitments

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

	Land and buildings	
	2011	2010
	£	£
Under leases expiring:		
Between two and five years	**115,696**	171,251

16 Related party disclosures

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

17 Ultimate controlling party

The directors consider there to be no ultimate controlling party as defined by Financial Reporting Standard 8 'Related Party Disclosures' The company is a subsidiary of ESG Holdings Limited, its ultimate parent company at 31 July 2011, which is the only group company to prepare consolidated financial statements 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