ESG Intermediate Holdings Limited

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

Registered number 06397427

ESG Intermediate Holdings Limited

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

ESG Intermediate Holdings Limited

Directors and advisors

Directors

A Benton
G Freed
J Dobson

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 Intermediate Holdings Limited

Directors' report
for the year ended 31 July 2012

The directors present their annual report and the audited financial statements for the year ended 31 July 2012 The company is registered as number 06397427

Principal activity

The principal activity of the company was that of an 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 2012 (2011 £nil)

On 1 August 2011 the trade and assets of Orient Gold Limited, ESG Corporate Services Limited (formerly Sheffield Trainers Limited) and Triangle Training Ltd, 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 who served throughout the year, and subsequently, except where indicated, were

G Freed
M Thurston (resigned 1 August 2012)
RJH Robson (resigned 25 November 2011)
J Rodriguez (resigned 23 July 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

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

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

ESG Intermediate Holdings Limited

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

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of liquidity risk and interest rate risk 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 company generally maintains cash balances together with term loan facilities for the ESG Holdings Limited group 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 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 company's and group's liquidity and ability to meet its obligations

Going concern

The directors consider that the going concern basis is appropriate as the company has received confirmation of group support from its parent company (see note 1)

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

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 2012 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 Statement of Directors' Responsibilities on page 2 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 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 company's affairs as at 31 July 2012 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

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

31 January 2013

ESG Intermediate Holdings Limited

Profit and loss account
for the year ended 31 July 2012

	Note	2012	2011
		£	£
Administrative expenses		**(138,978)**	(58,924)
Operating loss – continuing	2	**(138,978)**	(58,924)
Amounts written off investments	8	**-**	(6,000,000)
Income from shares in group undertakings		**500,791**	-
Interest receivable and similar income	5	**19,309**	1,572
Interest payable and similar charges	6	**(3,050,504)**	(3,005,449)
Loss on ordinary activities before taxation		**(2,669,382)**	(9,062,801)
Tax on loss on ordinary activities	7	**31,515**	816,683
Loss for the financial year	15	**(2,637,867)**	(8,246,118)

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 2012

	Note	2012	2011
		£	£
Fixed assets			
Investments	8	**14,647,008**	14,646,908
Tangible assets	9	**168,861**	154,720
		14,815,869	14,801,628
Current assets			
Debtors	10	**3,940,715**	4,764,476
Cash at bank and in hand		**4,361**	44,609
		3,945,076	4,809,085
Creditors· amounts falling due within one year	11	**(12,108,250)**	(27,880,315)
Net current liabilities		**(8,163,174)**	(23,071,230)
Total assets less current liabilities		**6,652,695**	(8,269,602)
Creditors amounts falling due after more than one year	12	**(17,568,909)**	-
Provisions for liabilities and charges	13	**(60,012)**	(68,757)
Net liabilities		**(10,976,226)**	(8,338,359)
Capital and reserves			
Called up share capital	14	**413,893**	413,893
Profit and loss account	15	**(11,390,119)**	(8,752,252)
Total shareholder's deficit	16	**(10,976,226)**	(8,338,359)

These financial statements on pages 6 to 17 were approved by the board of directors on the 29 January 2013 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 2012

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 liabilities and net liabilities the terms of its external loan have been amended (see note 12) and group support has been confirmed by its parent company On 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 payment (see also note 12) 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

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 rate 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

1 Accounting policies (continued)

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

2 Operating loss

The operating loss is stated after charging,

	2012	2011
	£	£
Depreciation of tangible fixed assets	**23,252**	19,259

The auditors' remuneration for the company, together with certain other administrative expenses, has been borne by another group undertaking and not recharged

3 Staff costs

The company has no employees (2011 none) other than the directors who received no emoluments for their services to the company

4 Directors' remuneration

None of the directors received any emoluments for services to this company for the current year Their emoluments as employees of other group companies are included in the financial statements of those companies

ESG Intermediate Holdings Limited

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

5 Interest receivable and similar income

	2012	2011
	£	£
Interest receivable from group undertakings	**19,309**	1,572

6 Interest payable and similar charges

	2012	2011
	£	£
Bank interest and similar charges	**-**	77,210
Interest on other loans	**1,968,206**	2,252,788
Amortisation of loan issue costs	**1,082,298**	675,451
	3,050,504	3,005,449

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

7 Tax on loss on ordinary activities

Analysis of tax

The tax credit on the loss on ordinary activities for the year is as follows

	2012	2011
	£	£
Current tax		
UK Corporation tax at 25 33% (2011 27 33%)	-	834,008
Over provision in prior year	**(61)**	(2,739)
	(61)	831,269
Deferred tax		
Origination and reversal of timing differences (note 13)	**31,576**	(14,586)
	31,576	(14,586)
Tax on loss on ordinary activities	**31,515**	816,683

Factors affecting the tax credit for the year

The tax assessed for the year is higher (2011 higher) than the standard rate of corporation tax in the UK of 25 33% (2011 27 33%) The differences are explained below

	2012	2011
	£	£
Loss on ordinary activities before tax	**(2,669,382)**	(9,062,801)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25 33% (2011 27 33%)	**(676,243)**	(2,476,864)
Effects of		
Impairment not tax deductible	-	1,639,698
Expenditure not allowable for tax purposes	**668,116**	-
Depreciation in excess of capital allowances	**8,127**	3,158
Over provision in prior year	**(61)**	2,739
Current tax credit	**(61)**	(831,269)

8 Investments

	Total
	£
Cost	
At 1 August 2011	20,646,908
Additions	100
At 31 July 2012	**20,647,008**
Impairment	
Provision at 1 August 2011 and **31 July 2012**	**(6,000,000)**
Net book value	
At 31 July 2012	**14,647,008**
At 31 July 2011	14,646,908

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 Limited (formerly Sheffield Trainers Limited)	Administrative and management services	Ordinary	100
Orient Gold Limited	Non trading subsidiary	Ordinary	100
Broomco (4110) Limited	Intermediate holding company	Ordinary	100
Triangle Training Holdings Limited	Intermediate holding company	Ordinary*	100
Triangle Training Ltd	Non trading subsidiary	Ordinary*	100
ESG (Skills) Limited	Vocational training from 1 August 2011	Ordinary	100
Sencia Limited	Provision of training and employment services	Ordinary Preference	100 100

9 Tangible fixed assets

	Leasehold improvements
	£
Cost	
At 1 August 2011	191,403
Additions	37,393
At 31 July 2012	**228,796**
Accumulated depreciation	
At 1 August 2011	36,683
Charge for year	23,252
At 31 July 2012	**59,935**
Net book value	
At 31 July 2012	**168,861**
At 31 July 2011	154,720

10 Debtors

	2012	2011
	£	£
Amounts owed by group undertakings	**3,921,132**	4,738,080
Prepayments and accrued income	**19,583**	26,396
	3,940,715	4,764,476

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

11 Creditors: amounts falling due within one year

	2012	2011
	£	£
Other loan	-	18,404,366
Amounts owed to group undertakings	**11,739,208**	9,270,838
Taxation and social security	**141,557**	193,387
Accruals and deferred income	**227,485**	11,724
	12,108,250	27,880,315

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
	£	£
Other loan	**17,568,909**	-

An analysis of the maturity of the loans is given below

	2012	2011
	£	£
In less than one year	-	19,269,000
Between one and two years	**17,568,909**	-
	17,568,909	19,269,000
Unamortised loan issue costs	-	(864,634)
	17,568,909	18,404,366

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 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 debt and allows 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

13 Provisions for liabilities and charges

	2012	2011
	£	£
Dilapidations provisions	**60,012**	37,181
Deferred tax	-	31,576
	60,012	68,757

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

	£
At 1 August 2011	37,181
Charge for the year	22,831
At 31 July 2012	**60,012**

	Deferred tax asset
	£
At 1 August 2011	31,576
Credit for the year (note 7)	(31,576)
At 31 July 2012	**-**

There is an unrecognised deferred tax asset of £483,516 relating to losses and timing differences in respect of capital allowances The potential asset at 31 July 2012 has not been recognised as the directors do not believe this will ever be realised

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 1% to 22% 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

14 Called up share capital

	2012	2011
	£	£
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

15 Profit and loss account reserve

	£
At 1 August 2011	(8,752,252)
Loss for the financial year	(2,637,867)
At 31 July 2012	**(11,390,119)**

16 Reconciliation of movements on total shareholder's deficit

	2012	2011
	£	£
Loss for the financial year	**(2,637,867)**	(8,246,118)
Opening total shareholders' deficit	**(8,338,359)**	(92,241)
Closing total shareholder's deficit	**(10,976,226)**	(8,338,359)

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

17 Lease commitments

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

	Land and buildings	
	2012	2011
	£	£
Under leases expiring:		
Between two and five years	**263,101**	115,696

18 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

Fees of £126,000 were paid to Ares Capital Europe (Luxembourg) SARL in respect of the new amended loan facility An amount of £17,568,909 was owed at 31 July 2012 and interest of £1,955,143 was payable in respect of the year

Sovereign Capital Partners LLP were issued a £5m loan note This was later exchanged for shares in Orca (SPV) Limited, with no external liability outstanding at the year end

19 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 parent company at 31 July 2012, 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 and Ares Capital Europe LLP the ultimate controlling entity Prior to this, Sovereign Capital Partners LLP managed the interests of the Sovereign Capital funds who were the principal shareholders