

2006 | ANNUAL REPORT AND ACCOUNTS





Formation Group PLC

**Annual report and financial statements
for the year ended 31 August 2006**

Registered number: 4145632

Auditors

*Deloitte & Touche LLP,
Chartered Accountants
Manchester*

Solicitors

*DLA Piper UK LLP,
101 Barbirolli Square,
Manchester, M2 3DL*

Nominated Adviser and Broker

*WH Ireland Limited,
11 St James Square,
Manchester, M2 6WH*

Bankers

*National Westminster Bank Plc,
1 Spinningfields Square,
Manchester, M3 3AP*

Registrars

*Lloyds TSB Registrars,
The Causeway, Worthing,
West Sussex, BN99 6DA*

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OPERATING PROFIT FROM
CONTINUING OPERATIONS ROSE BY 23%



HIGHLIGHTS

Formation Group PLC provides a range of specialist services to professional athletes and other high net worth individuals and organisations in the sports and entertainment sector. Services include wealth management & professional services, bespoke property investments and representation.

KEY POINTS

- Post year end – sale of Sports Marketing division to Sportfive GmbH & Co KG:
 - £10.223m was paid in cash on completion
 - an additional amount of up to £1.050m is payable in cash after the year ended 31 August 2007 depending on performance and the continued employment of selected senior management
 - net gain on disposal of approximately £4.5m
- Group focused on:
 - Wealth Management & Professional Services
 - Bespoke property investments
 - Representation
- Financial Results for the year, including Sports Marketing division:
 - Revenue from continuing operations increased by 13% to £15.1m (2005: £13.4m)*
 - Operating profit from continuing operations rose by 23% to £1.6m (2005: £1.3m)*
 - Profit before tax from continuing operations grew by 20% to £1.5m (2005: £1.3m)*
 - Basic earnings per share from continuing operations increased 20% to 0.91 pence (2005: 0.76 pence)*
 - Adoption of International Financial Reporting Standards ("IFRS") with effect from 1 September 2004
- Proposed final dividend of 0.105p per share (2005: 0.095p), an increase of approximately 11%
- Board remains confident of Group's prospects for the future:

* restated in accordance with IFRS

CHAIRMAN'S STATEMENT

The disposal of the Sports Marketing division, approved by shareholders on 24 October 2006, after the year end, was a significant step for the Group. Accounting for a material part of Group revenue in the last financial year, the sale fundamentally transforms the shape of the business and allows us to concentrate on activities that we consider to be higher growth opportunities. The offer from Sportfive GmbH & Co KG, enabled us to realise value for the Group and now leaves Formation focused on its Wealth Management & Professional Services operation, as well as new property ventures and its Representation division.

These two divisions serve two distinct customer groups. The first is high net worth athletes and entertainers who require financial planning and ancillary services, along with career advice. The second is sporting organisations and clubs for whom we can broker financial solutions.

Looking forward, we see good opportunities to develop the on-going businesses both organically and by acquisition. Our culture, brand identity and expertise are well established and the proceeds of the disposal of the Sports Marketing division will provide the financial platform to put this strategy into practice. As at 31 October 2006, the Group's net cash amounted to £7m leaving us in very robust shape financially.

THE BOARD AND STAFF

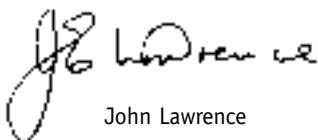
I am pleased to welcome to the board, Laurie Turnbull and Ian Battersby. They joined respectively as Non-Executive Director and Director of Wealth Management on 2 May 2006 and 24 October 2006.

Laurie Turnbull is an experienced senior executive in both public and private companies. For over 15 years, he was Chief Executive Officer of Texas Group plc, the venture capital company and was active in numerous acquisitions and initial public offerings. Laurie is currently Chief Executive of PenMc Plc, and Non Executive Chairman of CBG Group Plc.

THE SUCCESS OF THE GROUP IS DEPENDENT ON THE SKILL AND DEDICATION OF ALL ITS STAFF

Ian Battersby has been involved at a senior level with the Wealth Management Division since 2000 and has been Business Development Director of Kingsbridge Asset Management Limited since 2003, responsible for product development, sector penetration and high net worth client management.

The success of the Group is dependent on the skill and dedication of all its staff and I would, once again, like to thank all of our employees for their contribution and efforts in the year. Their hard work is very much recognised and valued.



John Lawrence
Non-Executive Chairman
16 November 2006



CHIEF EXECUTIVE'S REPORT

RESULTS

During the year, the Company adopted International Financial Reporting Standards ("IFRS") for the first time. The comparative figures for the year ended 31 August 2005 have been restated in accordance with IFRS. The comparative figures were included in our interim results for the six months ended 28 February 2006, and details of the adjustments on transition can be found in note 2 of the consolidated financial statements.

For the year ended 31 August 2006, Group revenue from continuing operations was 13% higher than last year at £15.1 million (2005: £13.4 million). Profit before taxation from continuing operations was £1.5 million, a rise of 20% over last year (2005: £1.3 million). The loss before taxation from discontinued operations was £0.6 million (2005: profit of £0.3 million). Basic earnings per share from continuing operations increased by 20% to 0.91p (2005: 0.76p). Basic earnings per share from continuing and discontinued operations was 0.46p (2005: 0.93p).

At 31 August 2006, the Group's continuing operations committed future gross profit was £2.8 million (2005: £5.2 million). £1.5 million will be recognised in the financial year ending 31 August 2007. This year on year decline is mainly due to the disposal of six subsidiary companies during and post the year end.

At 31 August 2006, Group net funds stood at £2.1 million (2005: £0.4 million), with cash of £1.0 million generated from operations during the year (2005: £2.2 million). There was an inflow from acquisitions and disposals of subsidiary undertakings of £0.8 million (2005: an outflow of £3.2 million) and a net inflow from the issue of new share capital and purchases of own shares of £0.7 million (2005: £nil).

The Directors are recommending a final dividend payment for the financial year of 0.105p per share (2005: 0.095p) an increase of approximately 11% per share. Subject to shareholder approval at the Annual General Meeting on 19 December 2006, this will be paid on 22 December 2006 to shareholders on the register at the close of business on 24 November 2006.

TRADING

During the period under review, Formation Group PLC had three operating divisions:

- **Sports Marketing**, trading through Fox Advertising, RC&A Sports Management, Bermitz Sports Advertising, Sponsomatic and Active Sports Marketing. Fox Advertising, RC&A Sports Management, Bermitz Sports Advertising and Sponsomatic all provide outdoor advertising and media to corporate brands. Active Sports Marketing provides

FOR THE YEAR ENDED 31 AUGUST 2006, GROUP REVENUE FROM CONTINUING OPERATIONS WAS 13% HIGHER THAN LAST YEAR

marketing services to the same target audience. The division was disposed of on 31 October 2006;

- **Wealth Management & Professional Services**, trading as Kingsbridge Asset Management, CBG Sports and Capital Sports Solutions. Kingsbridge provides financial planning and advice to sporting athletes and associations. Capital Sports Solutions and CBG Sports provide brokerage cash flow management advice to sporting organisations and clubs and general insurance products respectively;
- **Representation**, trading as Proactive Sports Management, provides representation and management services to professional footballers and entertainers.

SPORTS MARKETING

The division delivered a strong performance, in line with our expectations at the start of the year.

Revenue for the year increased to £8.3 million (2005: £6.7 million) and the segmental operating profit for the division was £1.26 million (2005: £1.21 million).

On 31 October 2006, the Group disposed of this division for a consideration of up to £11.273 million. In the Board's opinion, the offer from Sportfive GmbH & Co KG represented the opportunity to crystallise the underlying value of this division. On completion, the Group received initial consideration of £10.223 million. A further £1.050 million is dependent on the financial performance of the division in the year to 31 August 2007 and the retention of key employees. Based on the receipt of the initial consideration, the net gain on disposal is approximately £4.5 million.



OUR PRODUCTS ARE OFTEN BESPOKE
AND TAILORED TO MEET OUR CLIENTS' NEEDS



WEALTH MANAGEMENT & PROFESSIONAL SERVICES

Through Kingsbridge Asset Management, this division offers financial planning, insurance protection and management advice to individual athletes, entertainers and other high net worth individuals. Revenue for the year was £3.6 million (2005: £3.3 million) and the segmental operating profit was £543,000 (2005: £526,000).

Serving predominantly professional football players and coaches based in the UK, we provide advice to these clients in all areas of wealth management, including tax planning, investments and insurance protection. Given the specialised nature of the division's client base, our products are often bespoke and tailored to meet clients' needs, unlike a more traditional independent financial advisor. Future opportunities consist of increasing our market share in our chosen segments and adding complementary businesses.

This division also provides financial brokerage services to sporting associations and clubs via Capital Sports Solutions. The Board is pleased with the progress we are making in this area and is investigating the possibility of using the Group's capital to create a bespoke sporting fund.

REPRESENTATION

Following the disposal of Proactive Scandinavia, our Scandinavian football agency business based in Denmark, on 10 July 2006, this division consists of two operating companies. Excluding Proactive Scandinavia, revenue of the continuing operations was £3.1 million (2005: £3.4 million) and segmental operating profit was £995,000 (2005: £1,061,000). The Representation division currently acts for 107 (2005: 200) players throughout the world, of whom 81 (2005: 118) have represented their country at international level. The division completed 60 (2005: 102) transfers or contract renewals in the year, a 41 per cent decrease year on year.

We remain committed to this division and are confident about its medium term prospects after a significant period of instability and uncertainty. The Premier League enquiry undertaken by Lord Stevens has not yet been completed. However, we welcome this initiative and will comply with all recommendations which are implemented. We believe any increased compliance and regulation will be of benefit to the division and the industry going forward.

As at 31 August 2006, the division had committed future gross profit of £2.8 million (2005: £3.2 million excluding Proactive Scandinavia) of which £1.5 million will be recognised in the year ending 31 August 2007.

ACTING FOR 107 PLAYERS WORLDWIDE,
OF WHOM 81 HAVE REPRESENTED
THEIR COUNTRY AT INTERNATIONAL LEVEL



THE BUSINESS HAS BEEN SIGNIFICANTLY TRANSFORMED AND PROSPECTS FOR OUR RETAINED OPERATIONS LOOK POSITIVE

RISKS AND UNCERTAINTIES

The Group's key challenges are focused on four areas: our ability to recruit new clients in all divisions; our ability to retain and motivate senior sales personnel and management; the continued desire for live English football matches, both domestically and internationally, which underpin the financial health of football clubs and, therefore, players' salaries; and finally, the sustainability of the UK and European residential and commercial property sectors.



OUTLOOK

The business has been significantly transformed over recent months and prospects for our retained operations look positive. The view is reinforced by the level of contracted income within the Group and our strong cash position. The proceeds from the disposal of subsidiaries provide the Group with a solid platform from which to grow and our focus will be to generate progressive earnings growth for our shareholders. This will be done through a mix of continuing organic growth and selective acquisition. We view the next phase of the Group's development with much optimism.



Neil Rodford
Chief Executive

16 November 2006



Directors' report

For the year ended 31 August 2006

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31 August 2006.

Principal activities and business review

The principal activities of the Group comprise the provision of management, financial and marketing services in the football sector, to corporate brands, professional athletes and sporting associations and organisations, in the UK and overseas, and the provision of worldwide hospitality and event management.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 6 to the Company financial statements.

On 9 May 2006, the Company issued 11,487,381 new shares to David Kennedy, a property developer. Mr Kennedy is using his experience and contacts to assist the Company in identifying and creating opportunities in the property sector which can potentially be sold to clients.

On 10 July 2006, the Company disposed of Proactive Scandinavia A/S, its Scandinavian football agency for a total cash consideration of £2.0 million. Details of this disposal are contained in note 25 to the consolidated financial statements.

On 4 August 2006, Bermitz Sports Advertising Limited, a provider of outdoor sports advertising and corporate hospitality, was acquired by the Company's subsidiary, Fox Sports Limited. Details of this acquisition are contained in note 24 to the consolidated financial statements.

A detailed review of the business of the Company and its subsidiary undertakings, including discussion of the principal risks and uncertainties facing the Group, and likely future developments are contained in the Chief Executive's report.

Events after balance sheet date

On 5 October 2006, the Group announced the sale of its Sports Marketing business for a maximum consideration of £11.273 million. This sale was approved at an Extraordinary General Meeting on 24 October 2006 and the disposal was completed on 31 October 2006. Details of the disposal are contained in note 30 to the consolidated financial statements.

Results and dividends

The audited financial statements for the year ended 31 August 2006 are set out on pages 26 to 59. The Group's profit for the year after taxation was £543,000 (2005 – £1,069,000).

The Directors recommend the payment of a final dividend of 0.105 pence per share (2005 - 0.095 pence). No interim dividend was declared this year (2005 – £Nil). Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 22 December 2006 to shareholders on the register at 24 November 2006.

International financial reporting

During the year, the Company adopted International Financial Reporting Standards ("IFRS") for the first time. Financial statements for the year to 31 August 2006 and all subsequent periods will be prepared in accordance with IFRS. In order that the comparative figures for the year to 31 August 2005 could be prepared under IFRS, this required an opening balance sheet at 1 September 2004 to be prepared. The comparative figures were included in our interim results for the six months ended 28 February 2006, and details of the adjustments on transition can be found in note 2 to the consolidated financial statements.

Directors

The Directors who served during the year were as follows:

J.E. Lawrence	Non-Executive Chairman
I.A. Craig	Non-Executive Director
L.A. Turnbull	Non-Executive Director (appointed 2 May 2006)
J.E. Smith	Non-Executive Director (resigned 27 June 2006)
N. Rodford	Chief Executive
J. Foxcroft	(resigned 31 October 2006)
M. Kennedy	
D. McKee	(resigned 24 October 2006)
M. Page	Finance Director and Company Secretary

I. Battersby was appointed as a Director of the Company on 24 October 2006.

Directors' report continued

L.A. Turnbull and I. Battersby having been appointed as Directors since the last Annual General Meeting submit themselves for election at the next Annual General Meeting.

J.E. Lawrence and M. Page retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors are contained in the Corporate Governance Report. Details of Directors' remuneration and interests in the shares and share options of the Company are included in note 7 to the financial statements and in the Directors' remuneration report.

Supplier payment policy

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 August 2006 were equivalent to 90 days' (2005 – 110 days') purchases, based on the average daily amount invoiced by suppliers during the year.

Substantial shareholdings

On 6 November 2006 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

Name of holder	Number	Held (%)
D. McKee	11,596,667	9.18
D. Kennedy	30,137,813	23.85
P. Stretford	9,856,000	7.80
Imperial Trust	4,700,000	3.72
Texas Holdings Limited	8,590,000	6.80
K.B. Moran	<u>11,593,916</u>	<u>9.18</u>

Acquisition of the Company's own shares

Further to the shareholders' resolution on 14 December 2005 the Company purchased 1,100,000 ordinary shares with a nominal value of 1p, and representing 0.9% of the Company's called up ordinary share capital for consideration of £137,945. The reason for the purchase was to enhance earnings per share. At the end of the year, the Directors had authority, under the shareholders' resolution of 14 December 2005, to purchase through the market 10,387,381 of the Company's ordinary shares at a maximum price which may be paid for a share equal to not more than 105 per cent. of the average of the last prices for that share for the preceding five business days. This authority expires on the earlier of the next annual general meeting and 14 December 2006.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and e-mail communication. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The enterprise management incentive plan, the unapproved share option plan and the Non-Executive share option plan (all share option plans) are open to senior employees within the Group. Options granted under the plan are exercisable after 3 years and lapse after 10 years.

Directors' report continued

Employee consultation (continued)

At 31 August 2006, a total of 13 employees had options granted under the plan. The Group also operates a Group-wide bonus scheme based on the achievement of the Group's budgeted operating profit. This scheme is open to substantially all employees.

Charitable and political donations

The Group made charitable donations of £6,809 in the year (2005 - £13,000). The Group did not make any political contributions.

Auditors

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

9-13 Manchester Road
Wilmslow
Cheshire
SK9 1BQ

By order of the Board,

M. Page
Secretary

16 November 2006

Corporate governance

Introduction

The Company's shares are listed on the Alternative Investment Market (AIM) and as such there is no requirement to publish a detailed Corporate Governance statement. However, in accordance with best practice, a detailed Corporate Governance statement is set out below.

Board of Directors

The Board currently comprises the Non-Executive Chairman, the Chief Executive, the Finance Director, the Director of Wealth Management, the Director of Legal & Professional Services and two other Non-Executive Directors. The three Non-Executive Directors are considered by the Board to be independent of management and free from any business relationship that could materially interfere with the exercise of their independent judgement. Brief biographical details of the Directors appear below.

John Lawrence (Aged 61) Non-Executive Chairman

John Lawrence formed JEL Energy Conservation Services in 1975, which was sold to Thorn EMI. Following this he was Chairman and CEO of a number of Thorn EMI technology companies. Since 1993 he has been an investor and has held Non-Executive positions with a number of public and private companies. He is currently a Director of W.H. Ireland Group PLC and Aberdeen Growth VCT 1 plc and Non-Executive Chairman of BES Consulting Limited.

Neil Rodford (Aged 37) Chief Executive

Neil Rodford joined the Group in January 2001 and was previously the Group's Chief Operating Officer. He has previously held positions as Managing Director of Fulham FC and was a Business Development Manager of the Keegan Partnership.

Mark Page ACA (Aged 43) Finance Director and Company Secretary

Mark Page joined the Group as Financial Controller having previously held positions at Coopers & Lybrand and Big Food Group PLC.

Ian Battersby (Aged 48) Director of Wealth Management

Ian Battersby joined Kingsbridge in July 2000 at the time of their AIM Listing and has been their Business Development Director since that time. Ian has a strong corporate background and prior to joining Kingsbridge, he was Regional Commercial Director for LloydsTSB Group and has held senior positions with Hill Samuel and NatWest. Alongside his activities in developing Kingsbridge's penetration into wider sports markets, he has been influential in the Group's dialogue with Institutions and the professional sector, and the ongoing emergence of our Property Division.

Michael Kennedy (Aged 62) Director of Legal & Professional Services

Michael Kennedy joined the Group in January 2005. He is a Senior Partner at the law firm Herbert Reeves and specialises in property law. He has also represented football players for more than 20 years.

Alec Craig (Aged 49) Non-Executive Director

Alec Craig is Senior Partner of Halliwells LLP solicitors and is also Non-Executive Chairman of Tepnel Life Sciences PLC and a Non-Executive Director of Aberdeen Growth Opportunities VCT PLC.

Laurie Turnbull (Aged 56) Non-Executive Director

Laurie has extensive experience in a senior capacity in both public and private companies. For over 15 years, he was Chief Executive Officer of Texas Group plc, the venture capital company and was active in numerous acquisitions and initial public offerings. Laurie is currently Chief Executive of PenMc Plc, the Aim quoted shell company, and Non-Executive Chairman of CBG Group Plc, the Aim quoted insurance broker and financial services company.

The Board meets monthly throughout the year and the Board members are in frequent contact between meetings. The Board is responsible for the overall Group strategy, reviewing trading performance, formulating policy on key areas of the business and major acquisition decisions.

In order to enable the Board to discharge its duties all Directors have full and timely access to all relevant information. The Directors also have access to independent professional advice at the Company's expense.

The Non-Executive Directors are appointed for specific terms. All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment and thereafter are required to seek re-election at least every three years.

Corporate governance continued

Nominations Committee

The Board operates a Nominations Committee for the appointment of Directors. The members of the Committee are J.E. Lawrence (Chairman), I.A. Craig and L.A. Turnbull. The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. In considering an appointment the Nomination Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities of a particular appointment.

Relations with Shareholders

Communications with shareholders are given a high priority. There is dialogue with both institutional and private investors as well as general presentations after the interim and full year results are announced. The Company also makes available on its website (www.formationgroupplc.com) the latest Annual Report and Investor Presentation, as well as relevant announcements. The Company also responds throughout the year to numerous letters from individual shareholders on a wide range of issues on a timely basis.

All shareholders are given at least twenty days notice of the Annual General Meeting at which Directors are available for questions.

Audit Committee

The Audit Committee monitors the adequacy of the Group's internal financial controls, accounting policies and financial reporting. It reviews the interim and full year's financial statements prior to submission to the main Board. The Committee liaises with external auditors and reviews the scope of the audit and is also responsible for overseeing all matters associated with the appointments, terms, remuneration and performance of the auditors.

Non-audit work undertaken by the auditors is limited to work that requires detailed knowledge derived from the statutory audit (for example, taxation work) or to work where fees involved (either individually or annually in total) are not considered to be material. In other circumstances, proposed assignments are put out to competitive tender.

The Audit Committee has reviewed the remuneration received by Deloitte & Touche LLP for non-audit work. The fees for non-audit work are principally for taxation advice. The Audit Committee has concluded that no conflict of interest exists between Deloitte & Touche LLP audit and non-audit work and that their involvement was based on the most effective way of conducting the Group's business.

The Committee is composed of J.E. Lawrence (Chairman), I.A. Craig and L.A. Turnbull. The Chief Executive and Finance Director also attend Audit Committee meetings by invitation.

Board and Committee Attendance

The following table details the number of Board and Committee meetings held in the year ended 31 August 2006 and the attendance record of each Director.

	Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	12	3	2	1
J.E. Lawrence	12	3	2	1
I.A. Craig	8	2	1	1
L.A. Turnbull (from May 2006)	3	1	–	–
J.E. Smith (to June 2006)	9	1	2	–
N. Rodford	12	–	2	–
J. Foxcroft	5	–	–	–
M. Kennedy	10	–	–	–
D. McKee	8	–	–	–
M. Page	11	–	2	–

Corporate governance continued

Financial Reporting and Going Concern

It is the Board's duty to prepare a balanced and understandable assessment of the Group's position and prospects. A regular review of the Group's financial statements, cash balances and forecasts is undertaken by the Directors, enabling them to make an informed judgement of the Group's future trading ability. At the time of approving the financial statements, their judgement states that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

A statement covering the Directors' responsibilities for preparing the financial statements is included in the annexed financial statements.

Internal Control

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls and risk management. The Board is responsible for reviewing its overall effectiveness of internal control. The system is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that, in accordance with the guidance "Internal Control: Guidance for Directors on the Combined Code", there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process was in place throughout the year under review and up to the date of approval of the annual report.

There is no formal internal audit department, as the Board does not consider this to be necessary due to the size of the operations in the Group. The Board will keep this decision under review as the Group grows. The Finance Director and Chief Executive are currently responsible for relevant control and monitoring procedures. This information collated by them is presented to the Board for the Directors to assess the effectiveness of the system of internal control. In addition, the Board monitors the Group's significant risks on an ongoing basis.

Statement of Compliance with Code of Best Practice

Throughout the year ended 31 August 2006, the Company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance.

Directors' remuneration report

Introduction

This report has been voluntarily prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with Companies Act 1985 (as amended by the Regulations). The unaudited information is included below, whilst the audited information is included within note 7 to these financial statements.

Unaudited information

Remuneration Committee

The Committee consists of the three Non-Executive Directors: J.E. Lawrence, I.A. Craig and L.A. Turnbull. The Committee is chaired by J.E. Lawrence and its purpose is to determine the remuneration, benefits and the terms and conditions of employment of the Executive Directors. No Director plays a part in any discussion about his own remuneration.

Remuneration policy

Executive remuneration packages are designed to reflect the duties and responsibilities of that Executive, taking into account market conditions, and to ensure that the Group attracts and retains people of the highest calibre, rewarding them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee. Within the limits set out by the Articles of Association, the Board determines the remuneration of the Non-Executive Directors. Audited details of the Directors' remuneration are given in note 7 to the financial statements.

There are four main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

Basic salary

Salaries for the Executive Directors are reviewed annually with any changes taking effect from the beginning of the next financial year. In deciding appropriate levels the Committee considers the Group as a whole and benchmarks the salary to Executives in other companies of a similar size and nature. Executive Directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee benchmarks the salary to Executives in other companies of a similar size and nature, as noted above. The Committee believes that any incentive compensation awarded should be tied to interests of the Company's shareholders and that the principal measure of those interests is total shareholder return.

Directors' bonuses are based on meeting the financial targets of the Group and any relevant objectives personal to that Director.

Share options

Grants of share options are at the discretion of the Board. All grants are intended to promote a longer term involvement in the well-being of the Company and capital growth benefits for option holders. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities and promotions.

The Company operates three share option plans, the EMI plan, the unapproved plan and the Non-Executive plan. Grants of

Directors' remuneration report continued

options under these plans are at market value.

Directors' pension arrangements

Certain Executive Directors are eligible to be members of the Company's money purchase (defined contribution) Group personal pension scheme. The Company makes pension contributions of 10 per cent of basic salary for these Executive Directors.

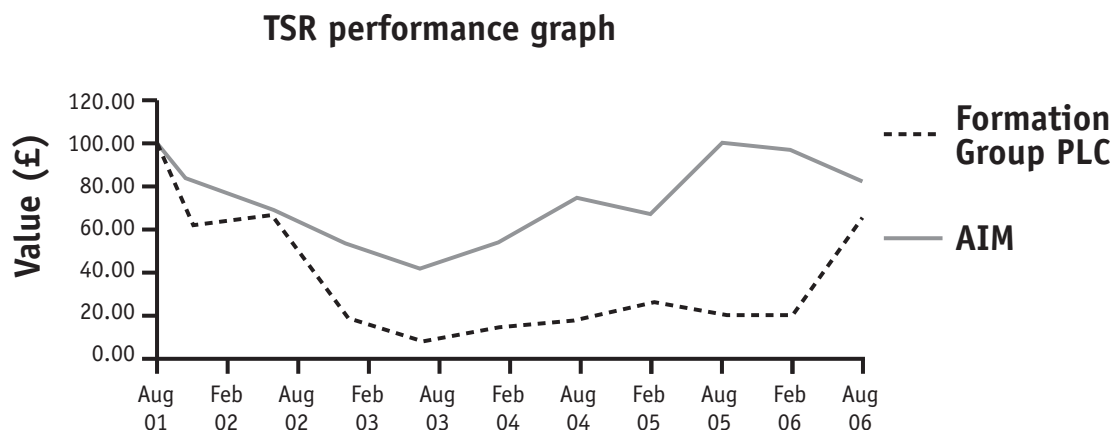
Service agreements

All Executive Directors have service contracts with at least three months notice. All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set out in the Articles of Association and based upon independent surveys of fees paid to Non-Executive Directors of similar companies. Non-Executive Directors can participate in the Non-Executive share option scheme but are not eligible to join the Company's pension scheme.

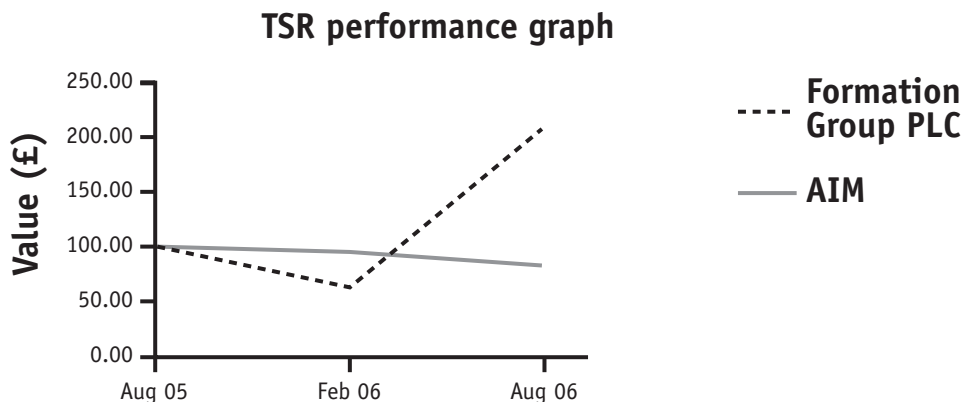
In the case of early termination of employment, the Committee will adopt the objectives outlined in the Combined Code.

Performance graph

The following graph illustrates the Company's Total Shareholder Return (TSR) performance since 1 September 2001 relative to the FTSE AIM index. The FTSE AIM comparator group was chosen as Formation Group PLC is a member of that index. The graph looks at the value, until 31 August 2006, of £100 invested in Formation Group PLC on 1 September 2001 compared with that of £100 invested in the FTSE AIM. The other points are plotted at half-year and financial year-ends.



The following graph illustrates the Company's TSR performance for the year ended 31 August 2006, the period since the last annual report and financial statements. The graph looks at the value, by 31 August 2006, of £100 invested in Formation Group PLC on 1 September 2005 compared with that of £100 invested in the FTSE AIM. The other point is plotted at the half-year end.



Directors' remuneration report continued

Directors' contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a minimum of three months' notice. The details of the Directors' contracts are summarised below.

	Date of contract	Notice period
N. Rodford	1 September 2003	12 months
M. Page	21 February 2005	12 months
M. Kennedy	<u>19 January 2005</u>	<u>3 months</u>

By order of the Board,

J.E. Lawrence
Chairman - Remuneration Committee
16 November 2006

Statement of Directors' responsibilities

Financial statements

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Other matters

The Directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

Independent auditors' report to the members of Formation Group PLC

We have audited the Group financial statements of Formation Group PLC for the year ended 31 August 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expenses, the consolidated statement of change in shareholders' equity and the related notes 1 to 30. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of Formation Group PLC for the year ended 31 August 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the Group financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

Although not required to do so, the Directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the Combined Code. We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' remuneration report described as having been audited.

Independent auditors' report continued

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 August 2006 and of its profit for the year then ended;
- the Group financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and,
- the information given in the Directors' report is consistent with the Group financial statements.

Separate opinion in relation to IFRS

As explained in Note 1 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 August 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester

16 November 2006

Consolidated income statement

For the year ended 31 August 2006

	Notes	2006 £'000	2005 £'000
Continuing operations			
Revenue	3	15,091	13,350
Cost of sales		(5,267)	(4,528)
		<hr/>	<hr/>
Gross profit		9,824	8,822
Administrative expenses		(8,217)	(7,517)
		<hr/>	<hr/>
Operating profit from continuing operations	3	1,607	1,305
Investment income	4	9	7
Finance costs	4	(108)	(56)
		<hr/>	<hr/>
Profit before taxation		1,508	1,256
Taxation	8	(431)	(387)
		<hr/>	<hr/>
Profit for the year from continuing operations		1,077	869
Discontinued operations			
(Loss)/profit for the year for discontinued operations	9	(534)	200
		<hr/>	<hr/>
Profit for the year attributable to equity holders of parent	5	543	1,069
Dividends	11	(109)	(98)
		<hr/>	<hr/>
Retained profit for the financial year		434	971
		<hr/>	<hr/>
Earnings per share			
From continuing operations			
Basic and diluted	10	0.91p	0.76p
		<hr/>	<hr/>
From continuing & discontinued operations			
Basic and diluted	10	0.46p	0.93p
		<hr/>	<hr/>

Consolidated statement of recognised income and expenses

For the year ended 31 August 2006

	2006 £'000	2005 £'000
Exchange (loss)/gain on foreign currency translation of foreign operations	(17)	8
Profit for the year attributable to equity holders of the parent	<u>543</u>	<u>1,069</u>
Total recognised income and expenses for the year attributable to equity holders of the parent	<u>526</u>	<u>1,077</u>

Statement of changes in shareholders' equity

For the year ended 31 August 2006

	2006 £'000	2005 £'000
Opening shareholders' equity	14,691	13,676
Dividends paid	(109)	(98)
Profit for the period attributable to equity holders of the parent	543	1,069
Issue of new share capital	791	–
Purchase of treasury shares	(138)	–
Other reserves movement due to share options charge	47	36
Exchange (loss)/gain on foreign currency translation recognised directly in equity	(17)	8
Closing shareholders' equity	<u>15,808</u>	<u>14,691</u>

Consolidated balance sheet

31 August 2006

	Notes	2006 £'000	2005 £'000
Non-current assets			
Goodwill	13	15,917	17,275
Other intangible assets	12	42	51
Property, plant and equipment	14	349	425
Deferred tax asset	21	124	27
		<u>16,432</u>	<u>17,778</u>
Current assets			
Trade and other receivables	15	6,782	9,446
Cash and cash equivalents	16	2,187	1,674
		<u>8,969</u>	<u>11,120</u>
Total assets		<u>25,401</u>	<u>28,898</u>
Current liabilities			
Trade and other payables	17	(8,419)	(11,407)
Tax liabilities		(753)	(726)
Obligations under finance leases	19	(4)	(12)
Bank overdrafts and loans	18	(44)	(400)
		<u>(9,220)</u>	<u>(12,545)</u>
Net current liabilities		<u>(251)</u>	<u>(1,425)</u>
Non-current liabilities			
Trade and other payables	17	(343)	(820)
Obligations under finance leases	19	(30)	(42)
Bank loans and overdrafts	18	–	(800)
		<u>(373)</u>	<u>(1,662)</u>
Total liabilities		<u>(9,593)</u>	<u>(14,207)</u>
Net assets		<u>15,808</u>	<u>14,691</u>
Equity			
Share capital	22	1,264	1,149
Share premium account	23	694	18
Treasury shares	23	(138)	–
Capital redemption reserve	23	61	61
Currency and other reserves	23	3,839	3,809
Profit and loss account	23	10,088	9,654
Total equity		<u>15,808</u>	<u>14,691</u>

The financial statements were approved by the Board of Directors on 16 November 2006 and signed on its behalf by:

Mark Page
Director

Consolidated cash flow statement

For the year ended 31 August 2006

	Notes	2006 £'000	2005 £'000
Cash generated by operations	26	1,017	2,167
Income taxes paid		(395)	(129)
Interest paid		(108)	(56)
Net cash inflow from operating activities		514	1,982
Investing activities			
Interest received		14	12
Proceeds on disposal of property, plant and equipment		18	62
Purchases of property, plant and equipment		(170)	(153)
Purchases of trade marks and rights		(2)	(2)
Deferred consideration paid		(356)	(3,031)
Acquisition of subsidiaries		(242)	(468)
Cash acquired with subsidiaries		135	342
Acquisition expenses		(107)	–
Proceeds on disposal of subsidiary		1,366	–
Cash disposed of with subsidiary		(8)	–
Net cash generated by/(used in) investing activities		648	(3,238)
Financing activities			
Dividends paid		(109)	(98)
Proceeds on issue of shares		791	–
Purchase of own shares		(138)	–
Repayments of obligations under finance leases		(20)	(12)
New bank loans raised		–	1,200
Repayment of bank loan		(1,200)	–
Net cash (used in)/generated by financing activities		(676)	1,090
Net increase/(decrease) in cash and cash equivalents		486	(166)
Cash and cash equivalents at the beginning of the year		1,674	1,829
Effect of foreign exchange rate changes		(17)	11
Cash and cash equivalents at the end of the year		2,143	1,674

Notes to the consolidated financial statements

For the year ended 31 August 2006

General information

Formation Group PLC is a Company incorporated in the United Kingdom under The Companies Act 1985. The address and registered office is 9 – 13 Manchester Road, Wilmslow, Cheshire, SK9 1BQ. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 14.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 1.

1. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Results for the comparative period have been restated under IFRS as adopted for use in the EU. Practice is continuing to evolve on the application and interpretation of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by the IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The disclosures required by IFRS 1 'First-time adoption of International Financial Reporting Standards' concerning the transition from United Kingdom Generally Accepted Accounting Practice (UK GAAP) to IFRS are given in note 2 of the consolidated financial statements.

The financial statements have been prepared on a historical cost basis.

Basis of consolidation

The Group's financial statements consolidate the results of Formation Group PLC and entities controlled by the Company (its subsidiaries) made up to the 31 August each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised as an asset. Goodwill is reviewed for impairment at least annually and any impairment will be recognised in the income statement and is not subsequently reversed. As such it is stated at cost less provision for impairment in value.

Intangible assets

Trademarks are included at cost and amortised in equal annual instalments over a period of ten years which is their estimated useful economic life. Provision is made for any impairment.

Other rights are image rights which are included at cost and written off in equal instalments over their useful economic life. Provision is made for any impairment.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Plant, property and equipment

Plant, property and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all plant, property and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land and buildings	20 years
Short leasehold improvements	Term of lease
Fixtures and fittings	5 years
Office equipment	Between 3 and 5 years
Plant & equipment	Between 3 and 10 years
Motor vehicles	4 years

Residual value is calculated on prices prevailing at the date of acquisition.

The gains or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Taxation

The tax expense represents the sum of the corporation tax currently payable and the deferred tax charge. The corporation tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associates, and interests in joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and where they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and that these benefits can be measured reliably. It is measured at the fair value of the consideration received or receivable for goods and services provided, net of discounts, value added tax and excludes intra-group transactions.

Revenue for football management services is recognised in accordance with the terms and conditions of the contract.

Revenue derived from image rights held by the Group are recognised on a straight line basis over the terms of the contract.

Revenue for sports marketing services represents the commission earned when the service is provided.

Revenue for corporate hospitality events is recognised when the event takes place.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Revenue recognition (continued)

Revenue is net of VAT and other sales related taxes. Invoices raised by the Group but not yet recognised as revenue, in line with the profit recognition policy above, are credited to accruals and deferred income. Similarly invoices received by the Group but not yet recognised as costs, in line with the profit recognition policy above, are debited to prepayments and accrued income.

Employee benefits – retirement benefit costs

The Group operates a defined contribution scheme. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised in the balance sheet and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the income statement over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Finance costs

Finance costs of debt are recognised in the income statement over the term of such instruments at a constant rate on the carrying amount.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including Directors). The fair value of these payments is calculated by the Group using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Group's best estimate of shares that will eventually vest.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the consolidated income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Due to the relatively stable nature the foreign currencies used by the Group, the use of forward exchange contracts is not considered necessary.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide principles in the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes. Changes in the fair value of derivative financial instruments, if any, are recognised in the income statement as they arise.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Operating profit

Operating profit from operations is stated excluding the results of discontinued operations, investment income, finance costs and taxation.

Critical accounting policies and key sources of uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from the actual results. The assumptions and estimates that have a significant risk of causing a material adjustment within the next financial year are:

- Impairment of Goodwill – Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Standards and interpretations

At the date of the authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The Directors anticipate the adoption of these standards and interpretations will have no material impact on the Group's financial statements. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Standards and interpretations (continued)

- IAS 1 Amendment 'Capital disclosures', is effective for periods commencing on or after 1 January 2007;
- IAS 39 Amendment 'Cashflow hedge accounting of forecast intragroup transactions', issued in April 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 39 Amendment 'The fair value option', issued in June 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 39 Amendment 'Financial guarantee contracts', issued in August 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 21 Amendment 'The effects of changes in foreign exchange rates – net investment in a foreign operation', issued in December 2005, is effective for periods commencing on or after 1 April 2006;
- IFRS 7 'Financial instruments: disclosures', issued in August 2005, is effective for periods commencing on or after 1 January 2007 and introduces new disclosures to improve the information about financial instruments;
- IFRIC 4 'Determining whether an arrangement contains a lease', issued in December 2004, is effective for periods commencing on or after 1 January 2006 and requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement;
- IFRIC 8 'Scope of IFRS 2', issued in January 2006, is effective for periods commencing on or after 1 May 2006; and
- IFRIC 9 'Reassessment of embedded derivatives', issued in March 2006, is effective for periods commencing on or after 1 June 2006.

Interpretations in issue but not considered relevant to the activities of the Group are as follows:

- IFRIC 1 'Changes in existing decommissioning, restoration and similar liabilities';
- IFRIC 2 'Members shares in cooperative entities and similar instruments';
- IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds';
- IFRIC 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'; and
- IFRIC 7 'Applying the restatement approach under IAS 29 'Financial reporting in hyperinflationary economies''.

2. Explanation of the transition to International Financial Reporting Standards (IFRS)

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The Group has adopted IFRS from 1 September 2004, the date of transition. The Group is required to define its accounting policies under IFRS and then apply these policies retrospectively in determining the opening balance sheet under IFRS at the date of transition, these are set out in note 1.

IFRS transitional arrangements and early adoption

The rules for the first-time adoption of IFRS are set out in IFRS 1 'First-time adoption of International Financial Reporting Standards'. IFRS 1 requires that IFRS be applied retrospectively unless a specific exemption is applied. In preparing these consolidated financial statements, the Group has opted to take the following exemptions permitted under IFRS 1:

- IFRS 3 'Business combinations': Business combinations that took place before the transition date have not been restated and therefore all goodwill written-off to reserves or amortised prior to the date of transition remains written-off to reserves and will not be taken into account either for subsequent impairment reviews or on disposal of the subsidiary.
- IAS 16 'Property, plant and equipment': To treat the property valuations as undertaken at 31 August 2004 as deemed cost at 1 September 2004; the related asset values therefore are unchanged on transition to IFRS.
- IFRS 2 'Share based payments': The provisions of the standard has only been applied to options issued after 7 November 2002 which had not vested at 1 January 2005.

Differences between IFRS and UK GAAP and explanation of adjustments

The changes in principal accounting policies which have arisen from the adoption of IFRS are:

Share option charge – IFRS 2, Share-based payments

This charge to the income statement is for share-based payments in accordance with IFRS 2. The charge is based on the fair value of the option at the date of grant recognised over the vesting period of the option. The fair value has been measured using the Black-Scholes method.

Employee benefits – IAS 19, Employee benefits

The cost of holidays accrued to staff but not taken has been included in the income statement.

Dividend recognition – IAS 10, Events after the balance sheet date

Under IFRS dividends are not recognised as liabilities until approved and so proposed dividends under UK GAAP have been removed from the accounts.

Goodwill amortisation – IFRS 3, Business combinations

In accordance with IFRS goodwill is no longer amortised but is subject to regular impairment reviews. An adjustment has been made to remove the goodwill amortisation charge under UK GAAP.

Notes to the consolidated financial statements

2. Explanation of the transition to International Financial Reporting Standards (IFRS) (continued)

Cumulative translation differences – IAS 21, The effects of changes in foreign exchange rates

Under IFRS, exchange rate differences arising on consolidation from the translation of overseas subsidiary companies are required to be recognised in a separate equity reserve.

Reclassification of finance lease receivable – IAS 17, Leases

The Group leases certain assets to customers which were previously treated as operating leases and held within property, plant and equipment and the income associated with the assets treated as rental income. Under IFRS these are treated as finance leases and the asset de-recognised from property, plant and equipment and recognised as a finance lease receivable.

Derecognition of financial liabilities – IAS 39, Financial instruments: recognition and measurement

A financial liability is derecognised under IFRS when, and only when, it is extinguished. This liability has not been legally discharged and therefore has been restated.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's net income and equity are included below.

a Reconciliation of consolidated balance sheet and equity at 1 September 2004

	Accounting policy changes under IFRS					IFRS £'000
	UK GAAP £'000	Share option charge £'000	Employee benefits £'000	Dividend recognition £'000	Cumulative translation differences £'000	
Non-current assets						
Goodwill	16,336					16,336
Other intangible assets	60					60
Property, plant and equipment	504					504
Deferred tax asset	18	7	17			42
	16,918	7	17	–	–	16,942
Current assets						
Trade and other receivables	6,240					6,240
Cash and cash equivalents	1,829					1,829
	8,069	–	–	–	–	8,069
Total assets	24,987	7	17	–	–	25,011
Current liabilities						
Trade and other payables	(8,735)		(57)	98		(8,694)
Tax liabilities	(404)					(404)
Obligations under finance leases	(12)					(12)
	(9,151)	–	(57)	98	–	(9,110)
Net current liabilities	(1,082)	–	(57)	98	–	(1,041)
Non-current liabilities						
Trade and other payables	(2,171)					(2,171)
Obligations under finance leases	(54)					(54)
	(2,225)	–	–	–	–	(2,225)
Total liabilities	(11,376)	–	(57)	98	–	(11,335)
Net assets	13,611	7	(40)	98	–	13,676
Equity						
Called-up share capital	1,149					1,149
Share premium account	18					18
Capital redemption reserve	61					61
Currency and other reserves	3,689	24			52	3,765
Profit and loss account	8,694	(17)	(40)	98	(52)	8,683
Total equity	13,611	7	(40)	98	–	13,676

Notes to the consolidated financial statements

2. Explanation of the transition to International Financial Reporting Standards (IFRS) (continued)

b Reconciliation of consolidated balance sheet and equity at 31 August 2005

Accounting policy changes under IFRS

	UK GAAP £'000	Share option charge £'000	Employee benefits £'000	Goodwill amortisation £'000	Dividend recognition £'000	Cumulative translation differences £'000	Reclassification of finance lease receivable £'000	Restatement of financial liability £'000	IFRS £'000
Non-current assets									
Goodwill	16,350			925					17,275
Other intangible assets	51								51
Property, plant and equipment	459						(34)		425
Deferred tax asset	(36)	17	21					25	27
	<u>16,824</u>	<u>17</u>	<u>21</u>	<u>925</u>	<u>-</u>	<u>-</u>	<u>(34)</u>	<u>25</u>	<u>17,778</u>
Current assets									
Trade and other receivables	9,412						34		9,446
Cash and cash equivalents	1,674								1,674
	<u>11,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34</u>	<u>-</u>	<u>11,120</u>
Total assets	<u>27,910</u>	<u>17</u>	<u>21</u>	<u>925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>28,898</u>
Current liabilities									
Trade and other payables	(11,365)		(69)		109			(82)	(11,407)
Tax liabilities	(726)								(726)
Obligations under finance leases	(12)								(12)
Bank overdrafts and loans	(400)								(400)
	<u>(12,503)</u>	<u>-</u>	<u>(69)</u>	<u>-</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>(82)</u>	<u>(12,545)</u>
Non-current liabilities									
Trade and other payables	(820)								(820)
Obligations under finance leases	(42)								(42)
Bank overdrafts and loans	(800)								(800)
	<u>(1,662)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,662)</u>
Total liabilities	<u>(14,165)</u>	<u>-</u>	<u>(69)</u>	<u>-</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>(82)</u>	<u>(14,207)</u>
Net assets	<u>13,745</u>	<u>17</u>	<u>(48)</u>	<u>925</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>(57)</u>	<u>14,691</u>
Equity									
Called-up share capital	1,149								1,149
Share premium account	18								18
Capital redemption reserve	61								61
Currency and other reserves	3,689	60				60			3,809
Profit and loss account	8,828	(43)	(48)	925	109	(60)		(57)	9,654
Total equity	<u>13,745</u>	<u>17</u>	<u>(48)</u>	<u>925</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>(57)</u>	<u>14,691</u>

Notes to the consolidated financial statements

2. Explanation of the transition to International Financial Reporting Standards (IFRS) (continued)

c Reconciliation of Group income for the year ended 31 August 2005

	Accounting policy changes under IFRS							IFRS £'000
	UK GAAP £'000	Share option charge £'000	Employee benefits £'000	Goodwill amortisation £'000	Dividend recognition £'000	Reclassification of financial liability £'000	Reclassification of discontinued operations £'000	
Revenue – continuing operations	14,903						(1,553)	13,350
Cost of sales	(4,794)					(82)	348	(4,528)
Gross profit	10,109	–	–	–	–	(82)	(1,205)	8,822
Administrative expenses	(9,322)	(36)	(12)	925			928	(7,517)
Operating profit from continuing operations	787	(36)	(12)	925	–	(82)	(277)	1,305
Investment income	12						(5)	7
Finance costs	(56)						–	(56)
Profit before taxation from continuing operations	743	(36)	(12)	925	–	(82)	(282)	1,256
Taxation	(508)	10	4			25	82	(387)
Profit for the year from continuing operations	235	(26)	(8)	925	–	(57)	(200)	869
Profit for the year from discontinued operations							200	200
Profit for the year attributable to equity holders of the parent	235	(26)	(8)	925	–	(57)	–	1,069
Dividends	(109)				11			(98)
Retained profit	126	(26)	(8)	925	11	(57)	–	971
Earnings per share								
Basic	0.20p							0.93p
Diluted	0.20p							0.93p

Notes to the consolidated financial statements

3. Segment information

For management purposes, the Group is currently organised into three operating divisions; Sports Marketing, Representation and Wealth Management and Professional Services. These divisions are the basis on which the Group reports its primary segment information. The Group was also previously involved in the European representation sector through Proactive Scandinavia, this operation was discontinued with effect from 31 May 2006, see note 25. Segment information about these businesses is presented below:

2006	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales	8,325	3,635	3,803	(672)	–	15,091
Inter-segment sales	–	–	167	–	(167)	–
Total revenue	8,325	3,635	3,970	(672)	(167)	15,091
Segment operating profit	1,261	543	757	238	–	2,799
Unallocated corporate expenses						(1,192)
Operating profit						1,607
Investment income						9
Finance costs						(108)
Profit before taxation						1,508
Taxation						(431)
Profit for the year from continuing operations						1,077
Loss for the year from discontinued operations						(534)
Profit for the year attributable to equity shareholders						543
2005	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales	6,734	3,259	4,910	(1,553)	–	13,350
Inter-segment sales	–	–	119	–	(119)	–
Total revenue	6,734	3,259	5,029	(1,553)	(119)	13,350
Segment operating profit	1,213	526	1,338	(277)	–	2,800
Unallocated corporate expenses						(1,495)
Operating profit						1,305
Investment income						7
Finance costs						(56)
Profit before taxation						1,256
Taxation						(387)
Profit for the year from continuing operations						869
Profit for the year from discontinued operations						200
Profit for the year attributable to equity shareholders						1,069

Notes to the consolidated financial statements

3. Segment information (continued)

Other information 2006	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Central costs £'000	Consolidated £'000
Capital additions	277	41	17	15	31	381
Depreciation and amortisation	57	18	63	21	20	179
	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Assets						
Segment assets	13,839	6,453	12,996	–	(8,169)	25,119
Unallocated corporate assets						282
Consolidated total assets						25,401
Liabilities						
Segment liabilities	(10,372)	(1,278)	(4,949)	–	8,169	(8,430)
Unallocated corporate liabilities						(1,163)
Consolidated total liabilities						(9,593)
Other information 2005	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Central costs £'000	Consolidated £'000
Capital additions	694	28	364	35	4	1,125
Depreciation and amortisation	66	9	66	28	19	188
	Sports marketing £'000	Wealth management and professional services £'000	Representation £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Assets						
Segment assets	12,998	6,392	14,015	2,282	(7,501)	28,186
Unallocated corporate assets						712
Consolidated total assets						28,898
Liabilities						
Segment liabilities	(9,669)	(1,774)	(6,772)	(223)	7,501	(10,937)
Unallocated corporate liabilities						(3,270)
Consolidated total liabilities						(14,207)

Intra-segment sales are charged at prevailing market prices.

Notes to the consolidated financial statements

3. Segment information (continued)

Discontinued operations

Discontinued operations had the following effect on the segment results of representation, analysed into continuing and discontinued components.

	Discontinued 2006 £'000	Continuing 2006 £'000	Representation 2006 £'000	Discontinued 2005 £'000	Continuing 2005 £'000	Representation 2005 £'000
Revenue						
External sales	672	3,131	3,803	1,553	3,357	4,910
Inter-segment sales	–	167	167	–	119	119
Total revenue	<u>672</u>	<u>3,298</u>	<u>3,970</u>	<u>1,553</u>	<u>3,476</u>	<u>5,029</u>
Segmental operating profit	<u>(238)</u>	<u>995</u>	<u>757</u>	<u>277</u>	<u>1,061</u>	<u>1,338</u>

The segment result from discontinued operations stated above is equal to the profit before tax and investment income from discontinued operations disclosed in note 9, which provides reconciliation to the net loss from discontinued operations.

Geographical segments

The Group's principal operations are located in the United Kingdom, Scandinavia and the United States of America. The Group's Wealth Management division is located in the United Kingdom. Representation is located in the United Kingdom and the United States of America and the Group's Sports Marketing division is based in the United Kingdom and Scandinavia. Revenue from the Group's discontinued operations was derived from Scandinavia (2006: £672,000, 2005: £1,553,000). The following table provides an analysis of the Group's sales from continuing operations by geographical market irrespective of the origin of the services:

	2006 £'000	2005 £'000
Revenue by geographical market		
United Kingdom	13,847	10,082
Rest of Europe	721	2,689
Rest of the World	523	579
	<u>15,091</u>	<u>13,350</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant, equipment and intangible assets	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
United Kingdom	14,666	11,623	342	1,010
Rest of Europe	513	2,730	37	106
Rest of the World	629	338	2	9
	<u>15,808</u>	<u>14,691</u>	<u>381</u>	<u>1,125</u>

Notes to the consolidated financial statements

4. Investment income and finance costs

Investment income

	2006 £'000	2005 £'000
Bank interest receivable	9	5
Other	–	2
	<u>9</u>	<u>7</u>

Finance costs

	2006 £'000	2005 £'000
Bank loan and overdraft	99	50
Interest on obligations under finance leases	6	4
Other	3	2
	<u>108</u>	<u>56</u>

5. Profit for the year attributable to equity holders of parent

Profit for the year attributable to equity holders of parent is stated after charging/(crediting):

	Continuing Operations		Discontinued Operations		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Net foreign exchange (gains)/loss	(22)	6	(1)	–	(23)	6
Depreciation of property, plant and equipment	147	150	21	28	168	178
Profit on disposal of property, plant and equipment	–	(18)	–	1	–	(17)
Amortisation of trademarks and image rights	11	10	–	–	11	10
Employee costs	5,239	4,570	471	574	5,710	5,144
Auditors' remuneration (see below)	134	137	4	10	138	147
	<u>134</u>	<u>137</u>	<u>4</u>	<u>10</u>	<u>138</u>	<u>147</u>

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2006 £'000	2005 £'000
Audit fees	86	81
Tax advisory	28	15
Tax compliance	24	51
	<u>138</u>	<u>147</u>

Included in the above is £31,000 (2005: £20,000) relating to auditors' remuneration for audit services provided to the Company.

Notes to the consolidated financial statements

6. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2006 Number	2005 Number
Representation	22	23
Sports Marketing	25	21
Wealth Management and Professional Services	29	25
Administration	18	20
	<hr/> 94 <hr/>	<hr/> 89 <hr/>

	2006 £'000	2005 £'000
Their aggregate remuneration comprised:		
Wages and salaries	5,096	4,558
Social security costs	494	489
Other pension costs (see note 28)	120	97
	<hr/> 5,710 <hr/>	<hr/> 5,144 <hr/>

7. Directors' remuneration, interests and transactions

Aggregate remuneration

The total amounts for Directors' remuneration and other benefits were as follows:

	2006 £'000	2005 £'000
Emoluments	892	737
Money purchase pension contributions	61	31
	<hr/> 953 <hr/>	<hr/> 768 <hr/>

Directors' emoluments

Name of Director	Fees/basic salary £'000	Bonuses £'000	Taxable benefits £'000	2006 Total £'000	2005 Total £'000
Executive					
N. Rodford	135	–	8	143	190
M. Page	86	15	1	102	105
D. McKee	215	–	–	215	133
J. Foxcroft	264	–	–	264	187
M. Kennedy	100	–	–	100	62
Non-Executive					
J.E. Lawrence	35	–	–	35	35
L.A. Turnbull	–	–	–	–	–
J.E. Smith	33	–	–	33	25
Aggregate emoluments	<hr/> 868 <hr/>	<hr/> 15 <hr/>	<hr/> 9 <hr/>	<hr/> 892 <hr/>	<hr/> 737 <hr/>
Fees to third parties				<hr/> 25 <hr/>	<hr/> 25 <hr/>

Fees to third parties comprise amounts paid to Grantsearch under an agreement to provide the Group with the services of Mr I.A. Craig.

Notes to the consolidated financial statements

7. Directors' remuneration, interests and transactions (continued)

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options are as follows, none of which have been exercised during the year:

Name of Director	Scheme	At 1 September 2005 Number	Options Surrendered Number	At 31 August 2006 Number	Exercise price	Date from which exercisable	Expiry Date
N. Rodford	Unapproved	1,000,000	–	1,000,000	7.13p	12/12/06	11/12/13
M. Page	EMI	500,000	–	500,000	7.13p	12/12/06	11/12/13
J. Foxcroft	EMI	400,000	(400,000)	–	–	–	–
M. Kennedy	Unapproved	1,000,000	–	1,000,000	8.13p	2/2/08	1/2/15
J.E. Lawrence	NED	500,000	–	500,000	7.13p	12/12/06	11/12/13
I.A. Craig	NED	500,000	–	500,000	7.13p	12/12/06	11/12/13
J.E. Smith	NED	500,000	–	500,000	7.25p	1/6/07	31/5/14

The market price of the ordinary shares at 31 August 2006 was 16.5p and the range during the year was 5.25p to 18.25p. Share options are issued to senior executives of the Group and have performance targets relating to the Group's operating profit for each of the three years following the grant of the options. The Remuneration Committee believed that the use of the operating profit represents the most appropriate measure of the Group's financial performance.

Certain Executive Directors are permitted under their service contracts to receive contributions from the Company to their personal pension schemes. Contributions payable by the Company in respect of such Directors were as follows:

	2006 £'000	2005 £'000
N. Rodford	53	13
D. McKee	–	10
M. Page	8	8
	61	31

Directors' interests

The Directors who held office at 31 August 2006 had the following beneficial interests in the 1p ordinary shares of the Company:

	31 August 2006 Number	31 August 2005 or date of appointment Number
N. Rodford	1,075,454	1,066,124
M. Page	332,493	319,493
D. McKee	11,986,667	15,736,667
J. Foxcroft	140,000	140,000
M. Kennedy	50,000	50,000
J.E. Lawrence	765,000	765,000
I.A. Craig	350,000	350,000
L.A. Turnbull	364,000	364,000

The Directors had no other interests, beneficial or otherwise, in the shares and debentures of any Group undertaking.

Notes to the consolidated financial statements

8. Tax on profit on ordinary activities

The tax charge comprises:

	Continuing Operations		Discontinued Operations		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Current tax	479	375	(65)	82	414	457
Deferred tax (note 21)	(48)	12	–	–	(48)	12
	<u>431</u>	<u>387</u>	<u>(65)</u>	<u>82</u>	<u>366</u>	<u>469</u>

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The tax on Discontinued Operations related to profits/losses arising in the Scandinavian representation division, which was disposed of during the year. No tax charge or credit arose on the disposal of the relevant subsidiary.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

Profit before tax	2006 £'000	2005 £'000
Continuing operations	1,508	1,256
Discontinued operations	(234)	282
	<u>1,274</u>	<u>1,538</u>
Tax after UK corporation tax rate of 30% (2005:30%)	382	461
Tax effect of expenses not deductible for tax purposes	35	29
Effect of different tax rates of subsidiaries in overseas jurisdictions	–	(9)
Prior period adjustment	(51)	(12)
Tax charge for the year	<u>366</u>	<u>469</u>

Notes to the consolidated financial statements

9. Discontinued operations

On 10 July 2006, the Group sold its holding in Proactive Scandinavia which carried out all of the Group's representation activities in Scandinavia. The disposal was effected due to the future development potential of Proactive Scandinavia within Formation. The results of this company were previously included in the Representation division.

Results of discontinued operations

The results of the discontinued operations which have been included in the consolidated income statement, were as follows:

	2006 £'000	2005 £'000
Revenue	672	1,553
Expenses	(910)	(1,276)
Investment income	4	5
(Loss)/profit before tax	(234)	282
Attributable tax expenses	65	(82)
(Loss)/profit on discontinued operations	(169)	200
Loss on disposal of discontinued operations	(365)	–
Attributable tax expenses	–	–
Loss on disposal of discontinued operations	(365)	–
Net (loss)/profit attributable to discontinued operations	(534)	200

During the year, Proactive Scandinavia had a net outflow of £16,000 (2005: £30,000) to the Group's net operating cash flows, paid £11,000 (2005: £22,000) in respect of investing activities and paid £61,000 (2005: £nil) in respect of financing activities.

A loss of £365,000 arose on the disposal of Proactive Scandinavia, being the proceeds of the disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

The effect of discontinued operations on segment results is disclosed in note 3.

10. Earnings per share

The calculation of basic and diluted earnings per share is based on the following profits and numbers of shares:

	2006 £'000	2005 £'000
Basic and diluted earnings – continuing operations	1,077	869
Basic and diluted earnings – discontinued operations	(534)	200
Basic and diluted earnings – continuing and discontinued operations	543	1,069
	2006 Number of shares '000	2005 Number of shares '000
Weighted average number of shares:		
For basic and diluted earnings per share	118,462	114,874

Earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue during the year.

Notes to the consolidated financial statements

11. Dividends

Amounts recognised as distributions to equity holders in the period:

	2006 £'000	2005 £'000
Final dividend paid for the year ended 31 August 2005 of 0.095p per ordinary share (2004 – 0.085p)	109	98
Proposed final dividend for the year end 31 August 2006 of 0.105p per ordinary share (2005 – 0.095p)	133	109

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Other intangible assets

Group	Trademarks £'000	Other rights £'000	Total £'000
Cost			
At 1 September 2004	13	65	78
Additions	2	–	2
At 31 August 2005	15	65	80
Additions	2	–	2
At 31 August 2006	17	65	82
Depreciation			
At 1 September 2004	3	15	18
Charge for the year	1	9	10
Adjustment to fair value of previously acquired assets	1	–	1
At 31 August 2005	5	24	29
Charge for the year	2	9	11
At 31 August 2006	7	33	40
Net book value			
At 31 August 2006	10	32	42
At 31 August 2005	10	41	51
At 1 September 2004	10	50	60

Trademarks are amortised over their estimated useful lives, which on average is 10 years. Other rights relate principally to player image rights and are amortised over their estimated useful lives of 8 years.

Notes to the consolidated financial statements

13. Goodwill

	Goodwill £'000
At 1 September 2004	16,336
Recognised on acquisition of subsidiaries	970
Changes in contingent consideration payable	(77)
Adjustment to fair value of previously acquired assets	46
	<hr/>
At 31 August 2005	17,275
Recognised on acquisition of a subsidiary	209
Derecognised on disposal of a subsidiary	(1,551)
Changes in contingent consideration payable	(45)
Additional acquisition costs	18
Adjustment to fair value of previously acquired assets	11
	<hr/>
At 31 August 2006	15,917
	<hr/>

During the year ended 31 August 2006, goodwill arising on acquisition relates to the acquisition of Bermitz Sports Advertising Limited (see note 24) and the goodwill on disposal relates to the disposal of Proactive Scandinavia A/S (see note 25).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2006 £'000	2005 £'000
Sports Marketing	3,138	2,956
Wealth Management and Professional Services	4,905	4,905
Representation	7,874	9,414
	<hr/>	<hr/>
	15,917	17,275
	<hr/>	<hr/>

The Group tests goodwill annually for impairment, or more frequently if there are incidents in that goodwill might be impaired.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions to the value in use calculations are those regarding the discount rates, growth rates and expected changes to the selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU's. The growth rates are based on the Directors' growth forecasts. Changes in selling prices and direct costs are based on past practises and expectations of future changes in the market.

Notes to the consolidated financial statements

14. Property, plant and equipment

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 September 2004	192	357	71	140	760
Exchange differences	–	3	–	–	3
Additions	5	96	28	24	153
Disposals	–	(21)	(45)	(52)	(118)
Adjustment to fair value of acquired assets	–	(21)	(6)	–	(27)
Acquisition of subsidiary undertakings	–	5	11	–	16
	<u>197</u>	<u>419</u>	<u>59</u>	<u>112</u>	<u>787</u>
At 31 August 2005	197	419	59	112	787
Exchange differences	–	–	(1)	–	(1)
Additions	17	96	–	57	170
Disposals	–	(4)	–	(41)	(45)
Disposal of subsidiary	–	(142)	–	–	(142)
	<u>17</u>	<u>(146)</u>	<u>(1)</u>	<u>(41)</u>	<u>(140)</u>
At 31 August 2006	<u>214</u>	<u>369</u>	<u>58</u>	<u>128</u>	<u>769</u>
Accumulated Depreciation					
At 1 September 2004	40	180	4	32	256
Exchange differences	–	1	–	–	1
Disposals	–	(10)	(18)	(45)	(73)
Charge for the year	17	98	23	40	178
	<u>17</u>	<u>88</u>	<u>23</u>	<u>40</u>	<u>168</u>
At 31 August 2005	57	269	9	27	362
Disposals	–	(4)	–	(23)	(27)
Disposal of subsidiary	–	(94)	–	–	(94)
Fair value adjustment	–	11	–	–	11
Charge for the year	19	89	12	48	168
	<u>19</u>	<u>95</u>	<u>12</u>	<u>48</u>	<u>174</u>
At 31 August 2006	<u>76</u>	<u>271</u>	<u>21</u>	<u>52</u>	<u>420</u>
Net book value					
At 31 August 2006	<u>138</u>	<u>98</u>	<u>37</u>	<u>76</u>	<u>349</u>
At 31 August 2005	<u>140</u>	<u>150</u>	<u>50</u>	<u>85</u>	<u>425</u>
At 1 September 2004	<u>152</u>	<u>177</u>	<u>67</u>	<u>108</u>	<u>504</u>

The carrying value of the Group's motor vehicles includes an amount of £18,000 (2005 - £41,000) in respect of assets held under finance leases.

Notes to the consolidated financial statements

15. Trade and other receivables

	2006	2005
	£'000	£'000
Trade receivables	4,692	7,022
Other debtors	74	106
Prepayments and accrued income	2,016	2,318
	<u>6,782</u>	<u>9,446</u>

The Group's principal financial assets are bank balances and trade receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts shown in the balance sheet are net of allowances for doubtful receivables, which totals £130,167 at 31 August 2006 (2005 - £216,066). Allowances are estimates by management based on past default experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers in a number of different segments.

The average credit period taken on sales ranges from 35 days to 188 days due to the differing nature of trade receivables in the Group's geographical segments. Trade receivables do not carry interest.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

16. Cash and bank deposits

	2006	2005
	£'000	£'000
Cash in hand and at bank	2,187	1,674

The effective interest rate on short term deposits for the year ended 31 August 2006 is 4.78%. No funds were placed on deposit in year ended 31 August 2005.

17. Trade and other payables

	2006	2005
	£'000	£'000
Current:		
Trade creditors	2,371	3,966
VAT	330	832
Other taxation and social security	126	131
Contingent and deferred acquisition consideration	216	240
Other creditors	556	804
Accruals and deferred income	4,820	5,434
	<u>8,419</u>	<u>11,407</u>
Non current:		
Contingent and deferred acquisition consideration	135	363
Other creditors	208	457
	<u>343</u>	<u>820</u>

Trade creditors and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2005 – 94 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the consolidated financial statements

18. Bank overdrafts and loans

	2006 £'000	2005 £'000
Current:		
Bank overdrafts	44	–
Bank loan	–	400
	<u>44</u>	<u>400</u>
Non-current:		
Bank loan	–	800
	<u>–</u>	<u>800</u>

The borrowings are repayable as follows:

	2006 £'000	2005 £'000
On demand or within one year	44	400
In the second year	–	400
In the third to fifth years inclusive	–	400
	<u>44</u>	<u>1,200</u>
Less: amount due for settlement within 12 months (shown under current liabilities)	<u>(44)</u>	<u>(400)</u>
Amount due for settlement after 12 months	<u>–</u>	<u>800</u>

The weighted average interest rates paid were as follows:

	2006 %	2005 %
Bank overdrafts	6.02	6.23
Bank loans	<u>6.27</u>	<u>6.48</u>

Bank loans of £nil (2005 - £1,200,000) were arranged at fixed interest rates and expose the Group to fair value interest risk. The Directors estimate the fair value of the Group's borrowings as follows:

	2006 £'000	2005 £'000
Bank overdrafts	44	–
Bank loans	–	1,162
	<u>44</u>	<u>1,162</u>

The other principal features of the Group's borrowings are as follows:

- i) Bank overdrafts are repayable on demand and have been secured by debentures from Formation Group PLC and certain of the Group's subsidiary companies as well as an inter company cross guarantee between these companies. The average effective interest rate on bank overdrafts approximates 6.02% (2005 – 6.23%) per annum and are determined based on 1.5% plus prime rate;
- ii) The Group has a £2,500,000 rolling credit facility which was taken out on 5 May 2006. There were no drawings on this facility at the year end. This facility replaced the Group's loan facility (2005 - £1,200,000). This facility is reduced from 1 September 2007 and ceases on 31 August 2009. The facility has been secured by debentures from Formation Group PLC and certain of the Group's subsidiary companies as well as an inter company cross guarantee between these companies and carried an interest rate at 1.75% above LIBOR.

Notes to the consolidated financial statements

18. Bank overdrafts and loans (continued)

At 31 August 2006, the Group had available £3,000,000 (2005 - £1,400,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Analysis of borrowings by currency:

	Total £'000	Danish Kroner £'000	Sterling £'000
31 August 2006			
Bank overdrafts	44	44	–
Bank loan	–	–	–
	<u>44</u>	<u>44</u>	<u>–</u>
31 August 2005			
Bank overdrafts	–	–	–
Bank Loans	1,200	–	1,200
	<u>1,200</u>	<u>–</u>	<u>1,200</u>

19. Finance leases

Amounts payable under finance leases are as follows:

	2006 £'000	2005 £'000
Within one year	4	12
Between one and two years	4	12
Between two and five years	26	30
	<u>34</u>	<u>54</u>

	Minimum lease payments		Present value of lease payments	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Within one year	7	17	4	12
In the second to fifth year	34	52	30	42
After five years	–	–	–	–
	<u>41</u>	<u>69</u>	<u>34</u>	<u>54</u>
Less: Future finance charge	(7)	(15)	N/A	N/A
Present value of lease obligation	<u>34</u>	<u>54</u>	<u>34</u>	<u>54</u>
Less: Amounts due for settlement within 12 months			<u>(4)</u>	<u>(12)</u>
Amounts due for settlement after 12 months			<u>30</u>	<u>42</u>

The Group has one finance lease at the year end which expires in March 2008. For the year ended 31 August 2006, the average effective borrowing rate was 7.65% (2005: 7.65%). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no amounts have been entered into for contingent rental payments. All lease obligations are denominated in sterling and the value of the Group's lease obligations under finance leases are secured by the lessor's rights over the leased assets.

Notes to the consolidated financial statements

20. Derivatives and other financial instruments

The primary risk faced by the Group is exchange rate risk. The Board has reviewed and agreed policies for management of this risk, as summarised below. All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial statement risk are credit risk, liquidity risk and interest rate risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable up-to-date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee, under authority delegated by the Board, formulates high level Group risk management policy and monitors risk management to allow it to review the effectiveness of the Group's risk management policies.

Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. The Group has dedicated standards, policies and procedures to control and monitor all such risks. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through reviews of counterparties and limiting the exposure to any single counterparty. The Group does not believe it is exposed to any material concentrations of credit risk.

Treasury risk management

The Group maintains a centralised treasury function. All transactions entered into by the Group's treasury operations are required to be in support of, or as a consequence of, underlying commercial transactions.

Finance and interest rate risk

The interest on the Group's borrowings is linked to Nat West's base rate.

Liquidity risk

The Group has managed its cash in a manner designed to ensure maximum benefit is gained, whilst ensuring security of investment sources. The Group's policy on investment of surplus funds limits the placing of deposits to institutions with strong credit ratings.

Foreign exchange risk

The Group's current activities are predominantly Sterling, Euro, US Dollar and Danish Kroner based and as a result the impact of changes in foreign exchange rates has been limited and no hedging has been necessary. The Group's transactional currency exposure, which arises from sales and purchases in currencies other than the Group's base currency, has been limited and so there has been no significant transactional exposure to hedge.

Borrowings and cash

The carrying values of cash and short-term borrowings approximate to their fair value because of the short-term maturity

21. Deferred taxation

The following are the major deferred taxation assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Share based payment £'000	Employee benefits £'000	Other £'000	Total £'000
At 1 September 2004	2	7	17	16	42
(Charge)/credit to income	16	10	4	(42)	(12)
Acquisition of subsidiary	(3)	–	–	–	(3)
At 1 September 2005	15	17	21	(26)	27
(Charge)/credit to income	6	15	(3)	30	48
Acquisition of subsidiary	2	–	–	–	2
Disposal of subsidiary	(6)	–	–	–	(6)
Other movement	–	–	–	53	53
At 31 August 2006	17	32	18	57	124

Notes to the consolidated financial statements

21. Deferred taxation (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2006 £'000	2005 £'000
Deferred tax liabilities	(6)	(99)
Deferred tax assets	130	126
	124	27

22. Share capital

	2006 £'000	2005 £'000
<i>Authorised</i>		
170,000,000 ordinary shares of 1p each (2005 – 170,000,000)	1,700	1,700
<i>Allotted and called-up</i>		
126,361,196 ordinary shares of 1p each (2005 – 114,873,815)	1,264	1,149
		£'000
At 1 September 2004		1,149
At 31 August 2005		1,149
Issue of new equity (11,487,381 ordinary shares of 1p)		115
At 31 August 2006		1,264

The Company has one class of ordinary shares which carry no right to fixed income.

The Company operates three share option schemes in relation to Group employees. Options are exercisable 3 years from the date of grant if stated performance criteria have been met. Options lapse if not exercised within ten years from the grant or if the participant leaves the Group's employment.

Options have been granted under the following schemes to subscribe for ordinary shares of the Company as follows:

Scheme	Date of grant	Exercise period	Subscription price per share	Number of options outstanding	
				2006	2005
Enterprise management incentive plan	16 May '01	16 May '04 to 15 May '11	25.00p	112,000	192,000
Unapproved share option scheme	12 Dec '03	12 Dec '06 to 11 Dec '13	7.13p	1,000,000	1,650,000
Enterprise management incentive plan	12 Dec '03	12 Dec '06 to 11 Dec '13	7.13p	1,850,000	2,500,000
Non Executive plan	12 Dec '03	12 Dec '06 to 11 Dec '13	7.13p	1,000,000	1,000,000
Non Executive plan	1 Jun '04	1 Jun '07 to 31 May '14	7.25p	500,000	500,000
Enterprise management incentive plan	27 Jul '04	27 Jul '07 to 26 Jul '14	8.25p	–	650,000
Unapproved share option scheme	22 Nov '04	22 Nov '07 to 21 Nov '14	7.25p	200,000	200,000
Unapproved share option scheme	9 Dec '04	9 Dec '07 to 8 Dec '14	7.13p	400,000	400,000
Unapproved share option scheme	2 Feb '05	2 Feb '08 to 1 Feb '15	7.25p	1,000,000	1,000,000
Enterprise management incentive plan	30 Aug '05	30 Aug '08 to 29 Aug '14	8.00p	–	400,000
				6,062,000	8,492,000

Notes to the consolidated financial statements

22. Share capital (continued)

Movements in share options are summarised as follows:

	2006 Number of options	2006 Weighted average exercise price pence	2005 Number of options	2005 Weighted average exercise price pence
Outstanding at the beginning of the period	8,492,000	7.79	7,892,000	7.66
Options issued during the period	–	n/a	2,000,000	7.82
Surrendered or expired during the year	(2,430,000)	8.16	(1,400,000)	7.13
Outstanding at the end of the period	6,062,000	7.64	8,492,000	7.79
Exercisable at the end of the period	–	–	–	–

The options outstanding at 31 August 2006 has a weighted average exercise price of 7.64 pence and a weighted average remaining contractual life of 7.6 years.

The inputs into the Black-Scholes model are as follows:

		2006	2005
Weighted average share price	pence	7.33	7.33
Weighted average exercise price	pence	7.33	7.33
Expected volatility	%	37.65	37.65
Expected life	years	3.55	3.55
Risk-free rate	%	4.69	4.69
Expected dividend rate	%	1.20	1.20

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The Group and Company recognised total expenses of £47,000 (2005: £36,000) related to equity settled share based payment transactions.

23. Reserves

	Own shares held £'000	Share premium account £'000	Capital redemption reserve £'000	Currency and other reserves £'000	Profit and loss account £'000	Total £'000
At 1 September 2004	–	18	61	3,765	8,683	12,527
Gain on foreign currency translation	–	–	–	8	–	8
Share options charge	–	–	–	36	–	36
Profit for the year	–	–	–	–	971	971
At 1 September 2005	–	18	61	3,809	9,654	13,542
Loss on foreign currency translation	–	–	–	(17)	–	(17)
Share options charge	–	–	–	47	–	47
Profit for the year	–	–	–	–	434	434
Acquisition of own share capital	(138)	–	–	–	–	(138)
Issue of new share capital	–	676	–	–	–	676
At 31 August 2006	(138)	694	61	3,839	10,088	14,544

The own shares reserve represents 1,100,000 ordinary shares of 1p each in the share capital of the Company.

Notes to the consolidated financial statements

24. Acquisition of subsidiary

Acquisition of Bermitz Sports Advertising Limited

On 4 August 2006 the Group acquired 100% of the issued share capital of Bermitz Sports Advertising Limited, an outdoor advertising and corporate hospitality company business based in the UK. The initial consideration paid on completion was £192,500, with an initial payment for the net assets of the business of £50,000. A further payment due for the net assets of the business is estimated to be £46,000. The following table sets out the book and fair value of the identifiable assets and liabilities acquired.

	Book value £'000	Adjustments £'000	Fair value £'000
Non-current assets			
Deferred tax asset	2	–	2
Current assets			
Trade and other receivables	537	(108)	429
Cash	135	–	135
Total assets	<u>674</u>	<u>(108)</u>	<u>566</u>
Trade and other payables	(453)	–	(453)
Corporation tax	(15)	–	(15)
Total liabilities	<u>(468)</u>	<u>–</u>	<u>(468)</u>
Net assets	<u>206</u>	<u>(108)</u>	<u>98</u>
Goodwill			<u>209</u>
			<u>307</u>
Satisfied by:			
Cash consideration			242
Expenses incurred			19
Deferred consideration			46
			<u>307</u>
Net cash outflows in respect of the acquisition comprised:			£'000
Cash consideration			(242)
Net cash acquired			135
			<u>(107)</u>

Bermitz generated a profit after taxation of £45,000 in the year ended 31 July 2006 (year ended 31 July 2005 – £11,000). Following the acquisition, the results of the company have been absorbed into Fox Sports Limited, as such it is impracticable to disclose the amount of the company's profit since the acquisition date.

Notes to the consolidated financial statements

25. Disposal of subsidiary

As referred to in note 9, on 10 July 2006, the Group disposed of its interest in Proactive Scandinavia.

The net assets of Proactive Scandinavia, at the date of disposal and at 31 August 2005 were as follows:

	10 July 2006 £'000	31 August 2005 £'000
Property, plant and equipment	48	54
Trade receivables	369	581
Bank balances and cash	8	96
Deferred tax asset/(liability)	6	(60)
Current tax liability	(56)	(24)
Trade payables	(155)	(139)
Attributable goodwill	1,551	1,551
	<hr/>	<hr/>
	1,771	2,059
	<hr/>	<hr/>
Fees and bonuses	594	
Loss on disposal	(365)	
	<hr/>	
Total consideration	2,000	
	<hr/>	
Satisfied by:		
Cash	1,960	
Deferred consideration	40	
	<hr/>	
	2,000	
	<hr/>	
Net cash inflow arising on disposal:		
Cash consideration	1,960	
Fees and bonuses	(594)	
Cash and cash equivalents disposed of	(8)	
	<hr/>	
	1,358	
	<hr/>	

The deferred consideration will be settled in cash by the purchaser on or before 10 July 2007.

The impact of Proactive Scandinavia on the Group's results in the current and prior periods is disclosed in note 9.

26. Reconciliation of profit from operations to net cash from operations

	2006 £'000	2005 £'000
Profit from continuing operations	1,607	1,305
(Loss)/profit from discontinued operations	(238)	277
Depreciation of property, plant and equipment	168	178
Amortisation of intangible assets	11	10
Share option charge	47	36
Profit on sale of tangible fixed assets	–	(17)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	1,595	1,789
Decrease/(increase) in receivables	2,776	(2,037)
(Decrease)/increase in payables	(3,354)	2,415
	<hr/>	<hr/>
Cash generated from operations	1,017	2,167
	<hr/>	<hr/>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

Notes to the consolidated financial statements

27. Operating lease arrangements

	2006	2005
	£'000	£'000
Minimum payments under operating leases recognised in income in the year	216	271

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
Group	£'000	£'000	£'000	£'000
Within one year	148	197	2	2
In the second to fifth years inclusive	474	589	6	–
After five years	617	733	–	–
	1,239	1,519	8	2

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

28. Pension arrangements

The Group makes pension contributions to the personal pension plans of certain full-time employees. The pension cost charge for the year amounted to £120,000 (2005 - £97,000).

29. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

The Group's head office is occupied on a 15 year lease from 17 May 2001 from James Hay Pension Trustees Limited which owns the property on trust for the personal pension plans of P. Stretford, K.B. Moran (both Directors of Proactive Sports Management Limited) and J. Olsen.

The terms of the lease, which were set by an independent commercial valuer at arm's length, are as follows:

- rental of £65,000 p.a. invoiced quarterly in advance;
- rent reviews every 5 years which are upwards only and no break clauses.

The charge for the year was £65,000 (2005 - £65,000) and no amount was due to James Hay Pension Trustees Limited at 31 August 2006 (2005 - £nil).

The office of Kingsbridge Asset Management Limited is occupied on a 15 year lease from 1 October 2003 from National Mutual Pension Trustees Limited which owns the property on trust for the personal pension plans of D. McKee and K. McMenamin (both employees of Kingsbridge Asset Management Limited).

The terms of the lease, which were set by an independent commercial valuer at arm's length, are as follows:

- rental of £51,000 p.a. invoiced quarterly in advance;
- rent reviews every 3 years which are upwards only.

The charge for the year was £51,000 (2005 - £51,000) and no amount was due to National Mutual Pension Trustees Limited at 31 August 2006 (2005 - £nil).

Kingsbridge Asset Management Limited has established a joint venture company, CBG Sports Limited, with CBG Group PLC. Laurie Turnbull, a Non-Executive Director of the Company, is Chairman of CBG Group PLC.

Notes to the consolidated financial statements

30. Subsequent Events

On 5 October 2006, the Group announced the sale of its Sports Marketing business for a maximum consideration of £11.273 million. This sale was approved at an Extraordinary General Meeting on 24 October 2006 and the disposal was completed on 31 October 2006.

Company financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORMATION GROUP PLC

We have audited the individual Company financial statements of Formation Group PLC for the year ended 31 August 2006 which comprise the balance sheet and the related notes 1 to 16. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the Directors' remuneration report are included in the Group annual report of Formation Group PLC for the year ended 31 August 2006. We have reported separately on the Group financial statements of Formation Group PLC for the year ended 31 August 2006 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the individual Company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2006;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester
16 November 2006

Company balance sheet

31 August 2006

	Notes	2006 £'000	2005 (restated) £'000
Fixed assets			
Intangible assets	4	5	5
Tangible assets	5	46	37
Investments	6	16,543	18,241
		<u>16,594</u>	<u>18,283</u>
Current assets			
Debtors	7	231	670
		<u>231</u>	<u>670</u>
Creditors: Amounts falling due within one year	8	(6,804)	(6,651)
		<u>(6,573)</u>	<u>(5,981)</u>
Net current liabilities			
Total assets less current liabilities		10,021	12,302
Creditors: Amounts falling due after one year	9	(28)	(889)
		<u>(28)</u>	<u>(889)</u>
Net assets		9,993	11,413
		<u>9,993</u>	<u>11,413</u>
Shareholders' equity			
Share capital	11	1,264	1,149
Share premium account	12	694	18
Treasury shares	12	(138)	–
Capital redemption reserve	12	61	61
Other reserves	12	3,796	3,749
Profit and loss account	12	4,316	6,436
		<u>9,993</u>	<u>11,413</u>
Total shareholders' equity		9,993	11,413

The financial statements were approved by the Board of Directors on 16 November 2006 and signed on its behalf by:

Mark Page
Director

Notes to the Company financial statements

For the year ended 31 August 2006

The accounts have been prepared in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention. As permitted by section 230 of the Companies Act 1985, no separate profit and loss account has been presented in respect of the Company. Formation Group PLC reported a loss for the financial year of £2,120,000 (2005: £1,932,000).

As permitted by FRS 1 "Cash Flow Statements (Revised)", no cash flow statement has been prepared as the cash flows of the Company are included in the consolidated financial statements of Formation Group PLC which are publicly available. The consolidated financial statements of Formation Group PLC, which are presented separately, have been prepared in accordance with International Financial Reporting Standards.

1. Principal accounting policies

The principal accounting policies applied under UK GAAP are summarised below. They have all been applied consistently throughout both the current and prior years, with the exception of new Financial Reporting Standards which are described in note 2.

Intangible assets

Trademarks are included at cost and depreciated in equal annual instalments over a period of ten years which is their estimated useful economic life. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land and buildings	20 years
Short leasehold improvements	Term of lease
Fixtures and fittings	5 years
Office equipment	Between 3 and 5 years
Plant & equipment	Between 3 and 10 years
Motor vehicles	4 years

Residual value is calculated on prices prevailing at the date of acquisition.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, 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 tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension costs and other post retirement benefits

The Company operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Notes to the Company financial statements

1. Principal accounting policies (continued)

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Critical accounting policies and estimation uncertainties

None of the above accounting policies are considered to be critical to the financial statements of the Company. There are no significant areas of estimation uncertainty.

Share-based payments

The Company issues equity-settled share-based payments to certain employees (including Directors). The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

2. New accounting policies

The new accounting standards which have been adopted by the Company in the year, which had an impact on the Company's results, are as follows:

- FRS 20 "Share based payments". The major effect of FRS 20 is to change the approach towards recognising liabilities for share based payments. As a result of adopting FRS 20, the Company's other reserves increased by £24,000, deferred tax assets increased by £7,000 and retained earnings decreased by £17,000 as at 31 August 2004. During the year ended 31 August 2005 the Company's loss increased by £26,000, deferred tax assets increased by a further £10,000 and the Company's other reserves increased by a further £36,000.
- FRS 21 "Events after the balance sheet date". The major effect of FRS 21 is to change the approach to dividends declared after the balance sheet date in respect of the year under review such that these dividends are no longer accrued for at the balance sheet date. As a result of adopting FRS 21, the Company's creditors due within one year at 31 August 2004 decreased by £89,000. During the year ended 31 August 2005, dividends paid decreased by £20,000 and creditors due within one year also decreased by £109,000.

Notes to the Company financial statements

3. Employee costs

The average monthly number of employees (including Executive Directors) was:

	2006 Number	2005 Number
Sports Marketing	1	1
Wealth Management and Professional Services	2	1
Administration	4	5
	<u>7</u>	<u>7</u>
	2006 £'000	2005 £'000

Their aggregate remuneration comprised:

Wages and salaries	855	897
Social security costs	87	118
Other pension costs	21	23
	<u>963</u>	<u>1,038</u>

4. Intangible fixed assets

Cost

At 1 September 2005	6
Additions	1
At 31 August 2006	<u>7</u>

Depreciation

At 1 September 2005	1
Charge for the year	1
At 31 August 2006	<u>2</u>

Net book value

At 31 August 2006	<u>5</u>
At 31 August 2005	<u>5</u>

Trademarks
£'000

Notes to the Company financial statements

5. Tangible fixed assets

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2005	–	36	54	90
Additions	17	9	–	26
Transfer from other Group Company	–	4	–	4
At 31 August 2006	17	49	54	120
Depreciation				
At 1 September 2005	–	29	24	53
Charge for the year	1	8	12	21
At 31 August 2006	1	37	36	74
Net book value				
At 31 August 2006	16	12	18	46
At 31 August 2005	–	7	30	37

The carrying value of the Company's motor vehicles includes an amount of £18,000 (2005 - £30,000) in respect of assets held under finance leases.

6. Fixed asset investments

	2006 £'000	2005 £'000
Subsidiary undertakings	16,543	18,241

Principal Group investments

The Parent Company and the Group have investments in the following subsidiary undertakings, all of which are wholly owned, which principally affected the profits or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity
Proactive Sports Management Limited *	England	Representation
Fox Sports Limited (trading as Fox Advertising) *	England	Outdoor advertising and media
Kingsbridge Asset Management Limited *	England	Wealth management
Active Sports Marketing Limited *	England	Sports marketing and corporate hospitality
Proactive Sports Management USA Inc *	USA	Representation
Sponsomatic ApS *	Denmark	Outdoor advertising and media
Capital Sports Solutions Limited *	England	Financial brokerage
RC & A Sports Management Limited	England	Outdoor advertising and media
Bermitz Sports Advertising Limited	England	Outdoor advertising and media

* held directly by Formation Group PLC.

Notes to the Company financial statements

6. Fixed asset investments (continued)

<i>Subsidiary undertakings</i>	£'000
Cost	
At 1 September 2005	32,608
Change in deferred consideration payable	(34)
Disposal	(2,030)
At 31 August 2006	30,544
Provision for impairment	
At 1 September 2005	14,367
Disposal	(366)
At 31 August 2006	14,001
Net book value	
At 31 August 2006	16,543
At 31 August 2005	18,241

7. Debtors

	2006	2005 (restated)
	£'000	£'000
Amount owed by Group undertakings	4	527
VAT	31	53
Other debtors	40	–
Prepayments and accrued income	106	63
Deferred tax asset	50	27
	231	670

8. Creditors: Amounts falling due within one year

	2006	2005 (restated)
	£'000	£'000
Bank loans and overdraft	653	726
Trade creditors	201	266
Amounts owed to Group undertakings	5,629	4,737
Other taxation and social security	27	32
Contingent and deferred acquisition consideration	–	115
Amounts payable under finance leases	4	4
Accruals and deferred income	290	771
	6,804	6,651

Bank overdrafts are repayable on demand and have been secured by debentures from Formation Group PLC and certain of the Company's subsidiary companies as well as an inter company cross guarantee between these companies.

Notes to the Company financial statements

9. Creditors: Amounts falling due after one year

	2006 £'000	2005 £'000
Bank loans	–	800
Contingent and deferred acquisition consideration	–	56
Amounts payable under finance leases	28	33
	28	889

The Group has a £2,500,000 rolling credit facility which was taken out on 5 May 2006. There were no drawings on this facility at the year end. This facility replaced the Group's loan facility (2005 - £1,200,000). This facility is reduced from 1 September 2007 and ceases on 31 August 2009. The facility has been secured by debentures from Formation Group PLC and certain of the Company's subsidiary companies as well as an inter company cross guarantee between these companies.

10. Provisions for liabilities and charges

	Deferred taxation (restated) £'000
At 1 September 2005	27
Transfer to profit and loss account	23
At 31 August 2006	50

Deferred tax (liability)/asset provided is analysed as follows:

	2006 £'000	2005 (restated) £'000
Accelerated capital allowances	12	3
Other timing differences	7	7
Share options	31	17
	50	27

11. Share capital

	2006 £'000	2005 £'000
<i>Authorised</i>		
170,000,000 ordinary shares of 1p each (2005 – 170,000,000)	1,700	1,700
<i>Allotted and called-up</i>		
126,361,196 ordinary shares of 1p each (2005 – 114,873,815)	1,264	1,149
		£'000
At 1 September 2005		1,149
Issue of new equity (11,487,381 ordinary shares of 1p)		115
At 31 August 2006		1,264

The Company has one class of ordinary shares which carries no right to fixed income.

Notes to the Company financial statements

11. Share capital (continued)

Options have been granted under the following schemes to subscribe for ordinary shares of the Company as follows:-

Scheme	Number of shares under option	Subscription price per share	Exercise period
Unapproved share option scheme	1,000,000	7.13p	12 December 2006 to 11 December 2013
Enterprise management incentive plan	112,000	25.00p	16 May 2004 to 15 May 2011
Enterprise management incentive plan	1,850,000	7.13p	12 December 2006 to 11 December 2013
Non Executive plan	1,000,000	7.13p	12 December 2006 to 11 December 2013
Non Executive plan	500,000	7.25p	1 June 2007 to 31 May 2014
Unapproved share option scheme	200,000	7.25p	22 November 2007 to 21 November 2014
Unapproved share option scheme	400,000	7.13p	9 December 2007 to 8 December 2014
Unapproved share option scheme	1,000,000	7.25p	2 February 2008 to 1 February 2015

12. Reserves

	Own shares held £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 September 2005 (as previously stated)	–	18	61	3,689	6,370	10,138
Prior year adjustments	–	–	–	60	66	126
At 1 September 2005 (restated)	–	18	61	3,749	6,436	10,264
Loss for the year	–	–	–	–	(2,120)	(2,120)
Share option charge	–	–	–	47	–	47
Acquisition of own share capital	(138)	–	–	–	–	(138)
Issue of new share capital	–	676	–	–	–	676
At 31 August 2006	(138)	694	61	3,796	4,316	8,729

The own shares reserve represents 1,100,000 ordinary shares of 1p each in the share capital of the Company.

13. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

Expiry date	Land and buildings		Other	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
- between two and five years	25	25	–	6
- after five years	65	65	–	–
	90	90	–	6

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

Notes to the Company financial statements

14. Pension arrangements

The Company makes pension contributions to the personal pension plans of certain full-time employees. The pension cost charge for the year amounted to £61,000 (2005 - £23,000).

15. Related party transactions

The Company's head office is occupied on a 15 year lease from 17 May 2001 from James Hay Pension Trustees Limited which owns the property on trust for the personal pension plans of P. Stretford, K.B. Moran (both Directors of Proactive Sports Management Limited) and J. Olsen.

The terms of the lease, which were set by an independent commercial valuer at arm's length, are as follows:

- rental of £65,000 p.a. invoiced quarterly in advance;
- rent reviews every 5 years which are upwards only and no break clauses.

The charge for the year was £65,000 (2005 - £65,000) and no amount was due to James Hay Pension Trustees Limited at 31 August 2006 (2005 - £nil).

16. Subsequent Events

On 5 October 2006, the Group announced the sale of its Sports Marketing business for a maximum consideration of £11.273 million. This sale was approved at an Extraordinary General Meeting on 24 October 2006 and the disposal was completed on 31 October 2006. Details of the disposal are contained in note 30 to the consolidated financial statements.

Formation Group PLC

9-13 Manchester Road
Wilmslow Cheshire SK9 1BQ
Tel: +44 (0) 1625 539832
www.formationgroupplc.com

Capital Sports Solutions Ltd

9-13 Manchester Road
Wilmslow
Cheshire SK9 1BQ
Tel: +44 (0) 1625 539991
website under construction

Kingsbridge Asset Management Ltd

19 Castle Gate
Nottingham NG1 7AQ
Tel: +44 (0) 115 852 3620
www.kingsbridge.co.uk

Proactive Sports Management Ltd

9-13 Manchester Road
Wilmslow Cheshire SK9 1BQ
Tel: +44 (0) 1625 536411
www.proactivesports.co.uk

Proactive Sports Management USA Inc.

3233 M Street, N.W.
Washington, D.C. 20007
Tel: 001 202 333 3615
www.proactivesportsusa.com

