Interim Report 2010

formation
GROUP PLC

formation
GROUP PLC

Interim Results for the Six Months ended 28 February 2010

Formation Group PLC is now a predominately property development and management company providing professional services to its clients within this sector.

These services include property development, architectural design and construction management.

Highlights

Revenue from continuing operations of £1.36 million (2009: £18.85m)

Operating loss from continuing operations of £0.87 million (2009: £2.05m profit),
Includes legal fee payments of £600k

The Group continues to trade in line with management's expectations and the board remains confident of the Group's prospects for the remainder of the year

Cash position as at 28 February 2010 £2.45 million (31 August 2009 £15.15 m)

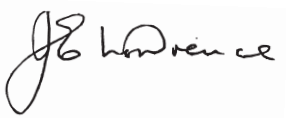
Chairman's Statement

I am pleased to report the Group's results for the six months ended 28 February 2010.

The last 6 month period has seen the implementation of the reorganisation plan with the sale of the loss making wealth management businesses previously announced and a cost reduction program relocating the groups head office to the Formation Design and Build offices in London. The Company is now focused on property development, architectural design and construction management services

I am pleased to confirm that a satisfactory agreement was reached regarding the Administration Order in relation to Heritable Bank PLC, first detailed within our Preliminary announcement in November 2008, which resulted in uncertainty over a contingent underwriting liability. The Group's current maximum liability under this arrangement is £11.6 m. We now own 50% of the Aldgate East Site having invested into a joint venture as previously disclosed. We have prudently put the value of this asset in the balance sheet at cost and I can report that negotiations are progressing regarding the funding to build out the Aldgate East development which when complete would extinguish the contingent liability.

Despite the general economic pressures prevailing at this time the board remains confident of the Group's prospects for the future. The board believes that it is necessary to focus on organic growth ahead of that afforded through potential debt funded acquisitions at this time but as the economy recovers the strategy will be revisited.



John Lawrence MBE
Non-Executive Chairman

28 May 2010

Chief Executive Officer's Report

Revenue for the period was £1.36 million from continuing operations (2009:£18.85 million) and operating loss from continuing operations were £0.87 million 2009:£2.05 million profit).

The reported loss accounts for legal fee payments of £0.6 million. We anticipate showing a material return on this expenditure in the next period's accounts.

In line with the Groups current dividend policy, no interim dividend is being declared. However the Directors will review the position at the time of the Preliminary results for the year ending 31 August 2010.

Formation Asset Management Limited

As reported in the August 2009 accounts, the company's income has been sold in a management buyout with payments continuing to be made as per the agreed terms of that sale. Deregulation from the FSA has been obtained and some litigation issues are being defended which are covered by the company's Professional Indemnity insurance policy going forward.

Formation Wealth Solutions Limited

As also reported in the August 2009 accounts, the company has been sold in a management buyout with payments continuing to be made as per the agreed terms of that sale.

Formation Design & Build Limited

The company has instigated various cost cutting measures including redundancies over the past year in response to the decline in market conditions and in particular the property market to which it remains exposed. Heritable Bank's demise and its consequences as reported last year, has particularly impacted the company's profitability this year.

The company retains a strong base of personnel and green shoots of recovery are currently emerging with strong evidence of imminent new project management appointments.

The company maintains a continuing involvement into No. 1 Commercial Street with a view to recommencing construction works on site in order to protect and maximize the Groups participation in the purchasing of this site from Heritable Bank's administrators and settlement with the developments various creditors as has been extensively reported.

Formation Architectural Design Limited

The company's workload has declined due to the last two years poor property market conditions. Various cost cutting exercises including redundancies have been instigated to mitigate the effects of this slump.

Recent evidence of new planning application instructions however suggests that our various developer clients are commencing to adopt a more positive view of the property markets future. Current income covers costs and continuous monitoring is in place.

Risks and Uncertainties

It is important to the Board that we continue to provide all our shareholders with a balanced view of the business including its risks and uncertainties.

We have disclosed the material challenges we face within the body of this report. Whilst no business is immune to the vagaries of the current economic climate, our business has continued reason to be cautiously optimistic. The situation arising out of the demise of Heritable Bank and its impact on No. 1 Commercial Street (Aldgate East) has cast uncertainties over our business. We however remain optimistic having financially contributed as part of a joint venture agreement in December 2009 to securing the sites release, and settlement with the various creditors to the project that the future development of this site looks more certain.

As a business we are prone to the economic climate and its impact on the property market. We constantly monitor this position and are capable of reacting with speed in order to mitigate our exposure, through overhead and staff cost savings as necessary, whilst always maintaining a strong nucleus.

As a business which is people centric, we remain aware of the need to continue to reward and recognize the often outstanding performance, loyalty and understanding our staff provide. We appreciate their acceptance of the difficult measures we have imposed over the year. We are not complacent in this area and our investment in our people and in the processes in place which assist them is testament to the importance we place on this key component of our business.

The risks associated with a majority shareholder has been well documented in previous reports and we acknowledge that such a high percentage of shares within the control of a single party has its challenges, particularly when considering the sentiment of institutional fund managers towards small cap businesses. It must be noted that in the recent poor economic environment we have benefited from various co operations and financial assistance provided by this majority shareholder.

Outlook

There have been many changes in the group structure over the recent past. We are now a project management and property based company. The future for this market is looking far more positive than that of recent years. We will continue to grow and evolve the business, with a clear view on its needs and our ability to prosper. Extracting the underlying shareholder value that lies within the Group is our foremost desire.

We have a cautiously optimistic view for the future borne out by:

(i) Increasing order book (in excess of £560k in April/May).
(ii) Projected profits from the Group's anticipated participation through FG (Bristol) Limited in a mixed use property development/investment acquisition at 176-182 Church Road, St. George, Bristol.
(iii) Projected profits from the Group's anticipated participation through FG (Bradford) Limited in a mixed use property development/investment at York House, Upper Piccadilly, Bradford BD1 4 PB.
(iv) Material incomes anticipated over coming months from various litigation cases funded to date.

David Kennedy
Chief Executive Officer

28 May 2010

The interim accounts will be published on the company's website www.formationgroupplc.com

Consolidated Income Statement

For the six months ended 28 February 2010

	Note	**6 months ended 28 Feb. 2010 (Unaudited) £'000**	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Continuing operations				
Revenue	2	**1,358**	18,845	18,953
Cost of sales		**(137)**	(10,764)	(15,911)
Gross profit		**1,221**	8,081	3,042
Administrative expenses		**(2,087)**	(6,035)	(5,477)
Operating profit from continuing operations	2	**(866)**	2,046	(2,435)
Investment income		**26**	52	4
Finance costs		**(142)**	(269)	(486)
(Loss)/profit before taxation and exceptional items		**(982)**	1,829	(2,917)
Exceptional Items	7	**3,399**	-	(17,824)
Profit before taxation		**2,417**	1,829	(20,741)
Taxation	4	**275**	(546)	277
Profit for the financial period from continuing operations		**2,692**	1,283	(20,464)
Discontinued operations				
Loss for the financial period from discontinued operations	3	**(162)**	-	(6,307)
Profit for the financial period		**2,530**	1,283	(26,771)
Attributable to:				
Owners of parent		**2,530**	1,261	(26,793)
Minority interests		**-**	22	22
		2,530	1,283	(26,771)
Earnings per share				
From continuing operations				
Basic	5	**1.22p**	0.58p	(9.56p)
Diluted	5	**1.22p**	0.57p	(9.56p)
From discontinued operations				
Basic	5	**(0.07p)**	0.00p	(2.96p)
Diluted	5	**(0.07p)**	0.00p	(2.96p)
From continuing and discontinued operations				
Basic	5	**1.15p**	0.58p	(12.52p)
Diluted	5	1.15p	0.57p	(12.52p)

Consolidated Statement of Comprehensive Income

For the six months ended 28 February 2010

	6 months ended 28 Feb. 2010 (Unaudited) £'000	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Profit for the financial period	**2,530**	1,283	(26,771)
Other comprehensive income/(expense):			
Exchange (loss)/gain on foreign currency translation of foreign operations	**-**	103	44
Total comprehensive income/(expense) for the financial period	**2,530**	1,386	(26,727)
Attributable to:			
Owners of the parent	**2,530**	1,364	(26,749)
Minority interests	**-**	22	22
	2,530	1,386	(26,727)

Consolidated Balance Sheet

As at 28 February 2009

	Note	**28 Feb. 2010 (Unaudited) £'000**	29 Feb. 2009 (Unaudited) £'000	31 Aug. 2009 (Audited) £'000
Non-current assets				
Goodwill		**10,805**	47,268	10,805
Other intangible assets		**3**	15	73
Property, plant and equipment		**54**	307	330
Non-current financial assets		**-**	4,862	-
Investments		**4,743**	-	-
Deferred tax asset		**208**	135	229
		15,813	52,587	11,110
Current assets				
Inventories		**-**	1,021	22
Trade and other receivables		**2,548**	9,252	2,140
Cash and cash equivalents		**2,446**	2,764	15,154
		4,994	13,037	17,316
Total assets		**20,807**	65,624	28,426
Current liabilities				
Trade and other payables		**(2,347)**	(8,180)	(4,958)
Current income tax liabilities		**-**	(1,626)	(536)
Obligations under finance leases		**-**	(9)	-
Bank overdrafts and loan		**-**	(4,250)	(7,010)
		(2,347)	(14,065)	(12,504)
Net current assets / (liabilities)		**2,647**	(1,028)	4,812
Non-current liabilities				
Trade and other payables		**-**	(4,033)	-
Obligations under finance leases		**-**	(5)	-
Bank loans		**-**	(3,281)	-
		-	(7,319)	-
Total liabilities		**(2,347)**	(21,384)	(12,504)
Net assets		**18,460**	44,240	15,922
Equity				
Share capital		**2,205**	2,205	2,205
Share premium account		**2,106**	2,106	2,106
Treasury shares		**(602)**	(102)	(602)
Capital redemption reserve		**61**	61	61
Merger reserve		**11,265**	20,326	11,265
Currency reserve		**94**	153	94
Share option reserve		**63**	395	55
Other reserve		**-**	(307)	-
Retained earnings		**3,268**	19,403	738
Total equity attributable to the owners of the parent		**18,460**	44,240	15,922
Total equity		**18,460**	44,240	15,922

Consolidated Statement of Changes in Equity

For the six months ended 28 February 2010

	Called up share capital £'000	Share premium account £'000	Treasury shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Share option reserve £'000	Currency reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 September 2008	**2,205**	**2,106**	**(102)**	**61**	**20,326**	**324**	**50**	**–**	**18,142**	**43,112**
Share based payment charge	–	–	–	–	–	71	–	–	–	71
Movement in minority interest	–	–	–	–	–	–	–	(307)	(22)	(329)
Transactions with owners	–	–	–	–	–	71	–	(307)	(22)	(258)
Profit for the financial period	–	–	–	–	–	–	–	–	1,283	1,283
Other comprehensive income										
Exchange differences on translating foreign operations	–	–	–	–	–	–	103	–	–	103
Total comprehensive income for the year	–	–	–	–	–	–	103	–	1,283	1,386
Balance at 29 February 2009	**2,205**	**2,106**	**(102)**	**61**	**20,326**	**395**	**153**	**(307)**	**19,403**	**44,240**
Acquisition of own share capital	–	–	(500)	–	–	–	–	–	–	(500)
Realisation of merger reserve on disposal of subsidiaries	–	–	–	–	(9,061)	–	–	–	9,061	–
Share based payment charge	–	–	–	–	–	83	–	–	–	83
Deferred tax on share options	–	–	–	–	–	(95)	–	–	–	(95)
Transfer to retained earnings	–	–	–	–	–	(328)	–	–	328	–
Movement in minority interest	–	–	–	–	–		–	307	–	307
Transactions with owners	–	–	(500)	–	–	(340)		307	9,389	(205)
Loss for the financial period									(28,054)	(28,054)
Other comprehensive income										
Exchange differences on translating foreign operations	–	–	–	–	–	–	(59)	–	–	(59)
Total comprehensive income for the year								(59)	(28,054)	(28,113)
Balance at 31 August 2009	**2,205**	**2,106**	**(602)**	**61**	**11,265**	**55**	**94**	**–**	**738**	**15,922**
Share based payment charge	–	–	–	–	–	8	–	–	–	8
Movement in minority interest	–	–	–	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–	–	–	8
Profit for the financial period	–	–	–	–	–	–	–	–	2,530	2,530
Other comprehensive income										
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	–	–	
Total comprehensive income for the year	–	–	–	–	–	–	–	–	2,530	2,530
Balance at 28 February 2010	**2,205**	**2,106**	**(602)**	**61**	**11,265**	**63**	**94**	**–**	**3,268**	**18,460**

Consolidated Statement of Cashflows

For the six months ended 28 February 2010

	Note	**6 months ended 28 Feb. 2010 (Unaudited) £'000**	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Operating activities				
Cash generated by operations	6	**(1,758)**	306	(38)
Income taxes paid		**(316)**	(449)	(1,239)
Interest paid		**(142)**	(289)	(432)
Net cash outflow from operating activities		**(2,216)**	(432)	(1,709)
Investing activities				
Interest received		**26**	52	59
Proceeds on disposal of property, plant and equipment		-	1	1
Purchases of property, plant and equipment		-	(36)	(89)
Deferred consideration paid		-	(2,660)	(3,310)
Net proceeds on disposal of subsidiary companies		-	-	16,477
Fees and costs relating to the disposal of subsidiaries		-	-	(295)
Cash disposed of with subsidiary companies		-	-	(702)
Investment In Joint Venture		**(3,500)**	-	-
Net cash (used in)/generated by investing activities		**(3,474)**	(2,643)	12,141
Financing activities				
Purchase of own shares		-	-	(500)
New loans		-	2,000	2,000
Loan repayments		**(7,010)**	(312)	(833)
Repayments of obligations under finance leases		-	(3)	(17)
Net cash (used in)/generated by financing activities		**(7,010)**	1,685	650
Net (decrease)/increase in cash and cash equivalents		**(12,700)**	(1,390)	11,082
Cash and cash equivalents at the beginning of the period		**15,154**	4,028	4,028
Effect of foreign exchange rate changes		**(8)**	126	44
Cash and cash equivalents at end of the period		**2,446**	2,764	15,154

Notes to the Interim Information

For the six months ended 28 February 2010

1. Basis of Preparation

The Group's interim results for the six months ended 28 February 2010 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those adopted in the preparation of the annual financial statements for the year ended 31 August 2009. The comparative figures are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 31 August 2009 have been filed with the Registrar of Companies for England and Wales and have been reported on by the Group's auditors. The report of the auditors was not qualified and did not contain a statement under section 498 (2) or section 498 (3) of the Companies Act 2006.

2. Segment information

	Revenue £'000	**6 months ended 28 Feb. 2010 (Unaudited) Loss from continuing operations £'000**	Revenue £'000	6 months ended 28 Feb. 2009 (Unaudited) Profit from continuing operations £'000	Revenue £'000	6 months ended 31 Aug. 2009 (Audited) Profit from continuing operations £'000
By class of business:						
Management services	-	**-**	3,963	1,942	-	-
Professional services	1,358	**229**	14,882	935	18,953	(851)
	1,358	**229**	18,845	2,877	18,953	(851)
Unallocated corporate expenses		**(1,095)**		(831)		(1,584)
Operating (loss)/profit from continuing operations		**(866)**		2,046		(2,435)

3. Discontinued operations

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

	6 months ended 28 Feb. 2010 (Unaudited) £'000	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Loss from discontinued operations	**(162)**	-	(6,307)
Attributable tax expense	-	-	-
Loss from discontinued operations	**(162)**	-	(6,307)
Loss attributable to discontinued operations	**(162)**	-	(6,307)

4. Taxation

The taxation charge at 28.0% of profit before taxation, is based on the estimated effective rate of tax on earnings for the full year ending 31 August 2010.

5. Earnings per share

Earnings per share are based on the following profits and numbers of shares:

	6 months ended 28 Feb. 2010 (Unaudited) £'000	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Profit for the period:			
Basic and diluted earnings – continuing operations	**2,692**	1,283	(20,464)
Basic and diluted earnings – discontinued operations	**(162)**	-	(6,329)
Basic and diluted earnings - continuing and discontinued operations	**2,530**	1,283	(26,793)

	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of shares:			
Basic	**220,515**	220,515	214,017
Diluted	**220,515**	224,827	214,017

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

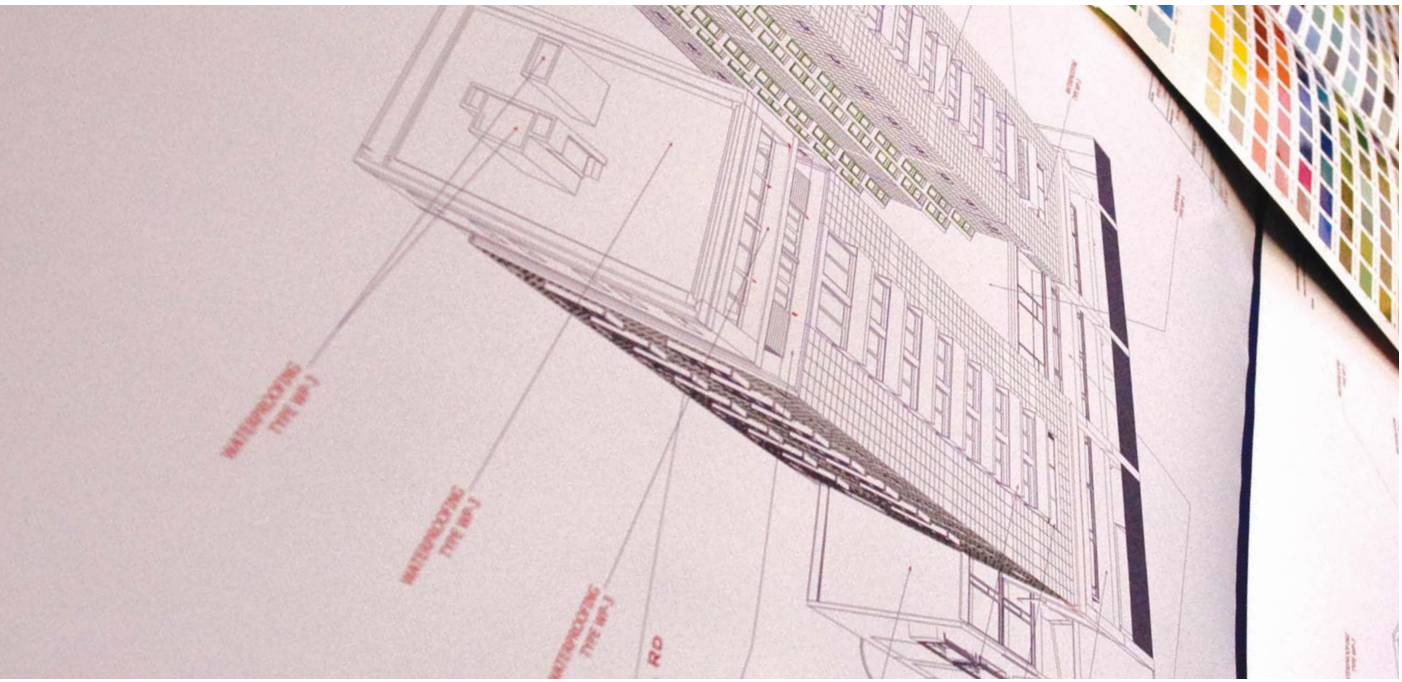
	6 months ended 28 Feb. 2010 (Unaudited) £'000	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
	(Unaudited) £'000	(Unaudited) £'000	(Audited) £'000
Operating profit for the year from continuing operations	**2,692**	1,283	(2,435)
Operating loss from disposal of discontinued operations	**(162)**	-	2629
Taxation	**(338)**	546	1,223
Investment income	**(26)**	(52)	(4)
Finance costs	**142**	269	486
Depreciation of property, plant and equipment	**19**	58	111
Amortisation of intangible assets	**-**	4	7
Share option charge	**8**	72	154
Operating cash flows before movements in working capital	**2,335**	2,180	2,171
Decrease in inventories	**22**	1,201	569
Increase in receivables	**(408)**	(2,274)	(3,349)
Decrease in payables	**(3,707)**	(801)	571
Cash (used in)/generated by operations	**(1,758)**	306	(38)

7. Exceptional Items

Annual tests for impairment were carried out during the year ended 31 August 2009 and this resulted in an impairment charge relating to the subsidiaries, Formation Asset Management Limited and Formation Design & Build Limited. The Board also assessed the fair values of the investment in CFGIL and the trade receivable balance from Julius, a related party company, owned by a majority shareholder. This resulted in write down of the fair value during the year ended 31 August 2009.

During the period agreement was reached by Julius Properties Limited (JPL) with the Administrators of Heritable Bank Plc regarding the property development above Aldgate East Station. The agreement meant that the debt with JPL was considered recoverable and accordingly the provision written back to the consolidated statement of income.

	6 months ended 28 Feb. 2010 (Unaudited) £'000	6 months ended 29 Feb. 2009 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000
Impairment charge – Formation Asset Management Ltd	**-**	-	(4,885)
Impairment charge – Formation Design & Build Ltd	**-**	-	(4,630)
Impairment charge – CFGIL	**-**	-	(4,862)
Fair value adjustment of trade receivable	**3,399**	-	(3,447)
	3,399	-	(17,824)



Independent review report to Formation Group plc

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 28 February 2010 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 7. We have read the other information contained in the half yearly financial report which comprises only the Chairman's Statement and Chief Executive Officer's Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with the basis of preparation.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 28 February 2010 is not prepared, in all material respects, in accordance with the basis of accounting described in note1.

Grant Thornton UK LLP
Chartered Accountants, Manchester

28 May 2010

Formation Group PLC

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