

Interim Report 2011



formation
GROUP PLC



Interim Results for the Six Months ended 28 February 2011

The Group is pleased to announce its interim results for the six months ended 28 February 2011. Formation Group is now a predominately property development and management company providing professional services to its clients within this sector. These services include property development and construction management.

Highlights

Revenue from continuing operations of £2.34 million (2010: £1.36m).

Operating loss from continuing operations of £0.185 million (2010: £0.87m loss).

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 2011 £0.405 million (31 August 2010 £0.286m).

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Chairman's Statement

I am pleased to report the Group's results for the six months ended 28 February 2011.

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 Group is now focused on property development and construction management services.

Following the announcement of 28 February 2011, the developer has confirmed that contracts have been exchanged on the remaining residential units of the Whitechapel development. The Directors believe that the successful completion of this transaction will result in the release of the guarantee provided by Formation Group Plc.

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 £11.6m. We own 36% of J V Finance Ventures Limited having investment into a joint venture as previously disclosed. We have recognised the value of this asset in the balance sheet at cost and I can report that negotiations are progressing regarding the No. 1 Commercial Street (Aldgate East) development which if completed 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.



Charles Green
Non-Executive Chairman
27 May 2011



Chief Executive Officer's Report

Revenue for the period was £2.34 million from continuing operations (2010:£1.36 million) and operating losses from continuing operations were £0.185 million (2010:£0.87 million loss).

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 2011.

Formation Design & Build Limited

The company has instigated various cost cutting measures including redundancies over the past two years 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 in the previous years have continued to impact the company's profitability this year.

The company retains a strong base of personnel which will enable it to grow as new developments and project management appointments occur.

Proactive Sports Management Limited

The Group acquired Proactive Sports Management Limited (a previously owned company), primarily to assist in the conduct of its ongoing sports related litigation cases. The company manages various sports related personnel. The ultimate intention is to withdraw from this business at the earliest possible opportunity.

F G (Bristol) Limited

This project has been completed on time and within budget. The Directors are now awaiting instructions from the projects funders regarding future sales or rentals of this project.

F G (Bradford) Limited

This project remains on budget and on time with completion projected at July 2011.



Chief Executive Officer's Report *continued*

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 in our 2010 year end accounts. 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, which secured the site's release and settlement with the various creditors to the project that the future development of this site now looks more certain.

As a business we are sensitive 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.





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

- (i) Incomes anticipated over coming months from various sports related litigation cases, that have been funded to date; and
- (ii) Discussions regarding Aldgate are at an advanced stage. The Directors remain confident that an agreement can be reached shortly. This occurrence coupled with new contracts being sourced is key to the Group's survival.

David Kennedy
Chief Executive Officer

27 May 2011

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

Consolidated Income Statement

For the six months ended 28 February 2011

	Note	6 months ended 28 Feb. 2011 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000	Year ended 31 Aug. 2010 (Audited) £'000
Continuing operations				
Revenue	2	2,341	1,358	2,248
Cost of sales		(1,724)	(137)	(311)
Gross profit		617	1,221	1,937
Administrative expenses		(802)	(2,087)	(3,011)
Operating profit from continuing operations	2	(185)	(866)	(1,074)
Investment income		-	26	-
Finance costs		-	(142)	(104)
(Loss)/profit before taxation and exceptional items		(185)	982	(1,178)
Exceptional Items	7	-	3,399	3,675
Profit before taxation		(185)	2,417	2,497
Taxation	4	-	275	7
Profit for the financial period from continuing operations		(185)	2,692	2,504
Discontinued operations				
Loss for the financial period from discontinued operations	3	(102)	(162)	(1,127)
(Loss)/profit for the financial period		(287)	2,530	1,377
Attributable to:				
Owners of parent		(287)	2,530	1,377
Minority interests		-	-	-
		(287)	2,530	1,377
Earnings per share				
From continuing operations				
Basic	5	(0.09p)	1.22p	1.22p
Diluted	5	(0.09p)	1.22p	1.22p
From discontinued operations				
Basic	5	(0.05p)	(0.07p)	(0.55p)
Diluted	5	(0.05p)	(0.07p)	(0.55p)
From continuing and discontinued operations				
Basic	5	(0.14p)	1.15p	0.67p
Diluted	5	(0.14p)	1.15p	0.67p

A separate consolidated statement of comprehensive income has not been presented as there are no items to be recognised within it.

Consolidated Statement of Financial Position

As at 28 February 2011



	28 Feb. 2011 (Unaudited) £'000	29 Feb. 2010 (Unaudited) £'000	31 Aug. 2010 (Audited) £'000
Non-current assets			
Goodwill	10,805	10,805	10,825
Other intangible assets	3	3	3
Property, plant and equipment	22	54	36
Non-current financial assets	-	-	-
Investments accounted for using the equity method	6,768	4,743	6,768
Deferred tax asset	-	208	-
	17,618	15,813	17,632
Current assets			
Inventories	2,643	-	1,826
Trade and other receivables	1,131	2,548	2,035
Cash and cash equivalents	405	2,446	286
	4,179	4,994	4,147
Total assets	21,797	20,807	21,779
Current liabilities			
Trade and other payables	(1,220)	(2,347)	(2,190)
Current income tax liabilities	(338)	(1,626)	(343)
Bank overdrafts and loan	(3,219)	-	(1,939)
	(4,777)	(2,347)	(4,472)
Net current assets / (liabilities)	(598)	2,647	(325)
Total liabilities	(4,777)	(2,347)	(4,472)
Net assets	17,020	18,460	17,307
Equity			
Share capital	2,205	2,205	2,205
Share premium account	2,106	2,106	2,106
Treasury shares	(602)	(602)	(602)
Capital redemption reserve	61	61	61
Merger reserve	11,265	20,326	11,265
Currency reserve	-	94	-
Share option reserve	22	63	22
Retained earnings	1,963	3,268	2,250
Total equity attributable to the owners of the parent	17,020	18,460	17,307
Total equity	17,020	18,460	17,307

Consolidated Statement of Changes in Equity

For the six months ended 28 February 2011

	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	Retained earnings £'000	Total equity £'000
Balance at 1 September 2009	2,205	2,106	(602)	61	11,265	55	94	738	15,922
Share based payment charge	-	-	-	-	-	8	-	-	8
Transactions with owners	-	-	-	-	-	8	-	-	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
Transfer to retained earnings	-	-	-	-	(41)	-	41	-	-
Transactions with owners	-	-	-	-	-	(41)	-	(41)	-
Loss for the financial period	-	-	-	-	(9,061)	-	-	(1,153)	(1,153)
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	-	-	-	-	(94)	94	-
Total comprehensive income for the year	-	-	-	-	-	-	(94)	94	-
Balance at 31 August 2010	2,205	2,106	(602)	61	11,265	22	-	2,250	17,307
Transactions with owners	-	-	-	-	-	-	-	-	-
Profit for the financial period	-	-	-	-	-	-	-	(287)	(287)
Other comprehensive income									
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 28 August 2011	2,205	2,106	(602)	61	11,265	22	-	1,963	17,020

Consolidated Statement of Cashflows

For the six months ended 28 February 2011



	Note	6 months ended 28 Feb. 2011 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000	Year ended 31 Aug. 2010 (Audited) £'000
Operating activities				
Cash generated by operations	6	(1,156)	(1,758)	(4,129)
Income taxes paid		(5)	(316)	(223)
Interest paid		-	(142)	(104)
Net cash outflow from operating activities		(1,161)	(2,216)	(4,456)
Investing activities				
Interest received		-	26	-
Proceeds on disposal of property, plant and equipment		-	-	6
Purchases of property, plant and equipment		-	-	(52)
Deferred consideration paid		-	-	250
Purchase of investments		-	(3,500)	(5,545)
Net cash used in investing activities		-	(3,474)	(5,341)
Financing activities				
New loans		1,280	-	1,939
Loan repayments		-	(7,010)	(7,010)
Net cash (used in)/generated by financing activities		1,280	(7,010)	(5,071)
Net increase/(decrease) in cash and cash equivalents		119	(12,700)	(14,868)
Cash and cash equivalents at the beginning of the period		286	15,154	15,154
Effect of foreign exchange rate changes		-	(8)	-
Cash and cash equivalents at end of the period		405	2,446	286



Notes to the Interim Information

For the six months ended 28 February 2011

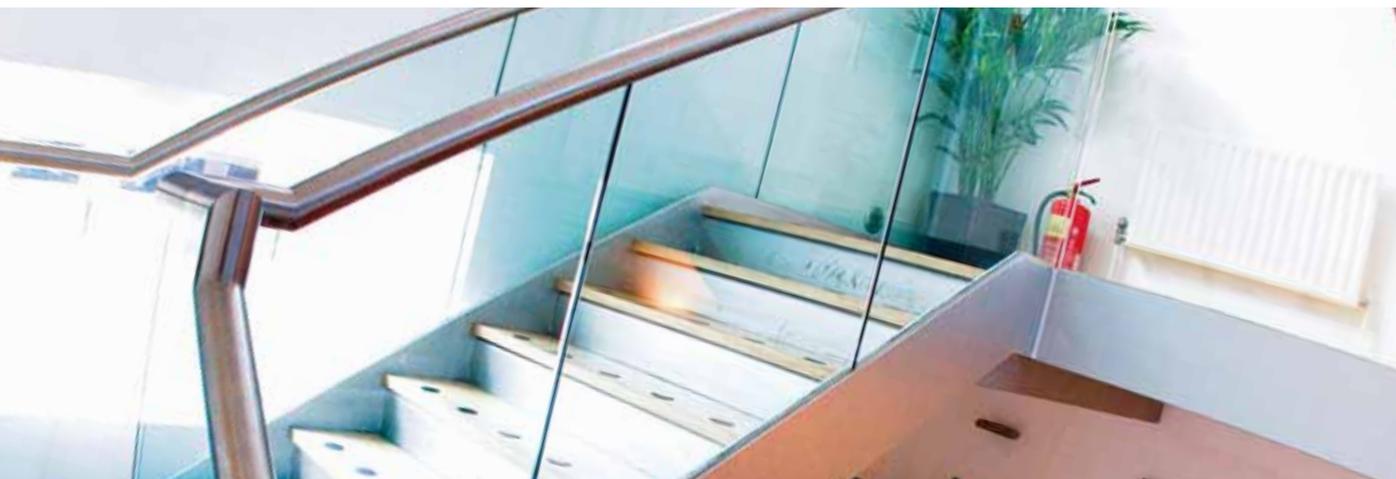
1. Basis of Preparation

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The group's statutory financial statements for the year ended 31 August 2010, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and on the same basis and using the same accounting policies as used in the financial statements for the year ended 31 August 2010. The interim financial statements have not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

2. Segment information

	6 months ended 28 Feb. 2011 (Unaudited) Loss from continuing operations £'000		6 months ended 28 Feb. 2010 (Unaudited) Profit from continuing operations £'000		6 months ended 31 Aug. 2010 (Audited) Profit from continuing operations £'000	
	Revenue £'000		Revenue £'000		Revenue £'000	
By class of business:						
Management services	75	(65)	-	-	66	36
Professional services	2,266	206	1,358	229	2,182	410
	<u>2,341</u>	<u>141</u>	<u>1,358</u>	<u>229</u>	<u>2,248</u>	<u>446</u>
Unallocated corporate expenses		(326)		(1,095)		(1,520)
Operating loss from continuing operations		<u>(185)</u>		<u>(866)</u>		<u>(1,074)</u>



Notes to the Interim Information *continued*

For the six months ended 28 February 2011



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. 2011 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000	Year ended 31 Aug. 2010 (Audited) £'000
Profit/(loss) from discontinued operations	21	(162)	(1,127)
Attributable tax expense	-	-	-
Profit/(loss) from discontinued operations	21	(162)	(1,127)
Loss attributable to discontinued operations	(123)	-	-
Loss attributable to discontinued operations	(102)	(162)	(1,127)

4. Taxation

A tax has not been recognised as the reversal of tax losses is uncertain.



Notes to the Interim Information *continued*

For the six months ended 28 February 2011

5. Earnings per share

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

	6 months ended 28 Feb. 2011 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000	Year ended 31 Aug. 2010 (Audited) £'000
Profit for the period:			
Basic and diluted earnings – continuing operations	(185)	2,692	2,504
Basic and diluted earnings – discontinued operations	(102)	(162)	(1,127)
Basic and diluted earnings – continuing and discontinued operations	(287)	2,530	1,377
	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of shares:			
Basic	204,533	220,515	204,533
Diluted	204,533	220,515	204,533

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

	6 months ended 28 Feb. 2011 (Unaudited) £'000 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000 (Unaudited) £'000	Year ended 31 Aug. 2009 (Audited) £'000 (Audited) £'000
Operating (loss)/profit for the year from continuing operations	(185)	(866)	(1,074)
Operating loss from disposal of discontinued operations	(102)	(162)	(861)
Taxation	-	-	-
Investment income	-	(26)	-
Finance costs	14	19	83
Depreciation of property, plant and equipment	19	58	111
Share option charge	-	8	8
Operating cash flows before movements in working capital	(273)	(1,027)	(1,844)
(Increase)/decrease in inventories	(817)	22	(1,804)
Decrease/(increase) in receivables	904	(408)	2,287
Decrease in payables	(970)	(345)	(2,768)
Cash used in/by operations	(1,156)	(1,758)	(4,129)

Notes to the Interim Information *continued*

For the six months ended 28 February 2011



7. Exceptional Items

In 2010 the amount due from Julius Properties Limited was received and the provision made in 31 August 2009 was reversed.

	6 months ended 28 Feb. 2011 (Unaudited) £'000	6 months ended 29 Feb. 2010 (Unaudited) £'000	Year ended 31 Aug. 2010 (Audited) £'000
Negative Goodwill on acquisition of Proactive Sports Management Ltd	-	-	228
Fair value adjustment of trade receivable	-	3,399	3,447
	<u>-</u>	<u>3,399</u>	<u>3,675</u>



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