Annual Report and Accounts 2010

formation
GROUP PLC

Formation Group PLC

Annual report and financial statements
for the year ended 31 August 2010

Registered number: 04145632

formation
GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2010

In October 2010, the company announced my return as Chairman, having occupied that position at the time of the company's flotation in 1992. John Lawrence, having announced his intention not to stand for re-election, left the company on 2 July 2010.

The difficulties and challenges facing the Group are no less than in the previous year. The prevailing weakness in the financial markets continues to frustrate the Group's plans moving forward. There is however, improvement in the Group's financial performance, as these results show. The efforts of the Directors and management are now beginning to show through. There have also been positive movements on the various pieces of litigation that surround the company and your board believe these are now close to a resolution.

The Chief Executive Officer's Report provides further detail on the individual projects that are engaging the company at the current time. Your board are confident that the transformation of the group is nearing completion. A clear focus following this period of transition will allow all employees to drive further improvements and shareholder value.

The liquidation of Formation Asset Management announced on 8th September 2010, has now been completed and no exposure to any related liabilities remains with the company.

There is still much to do and Formation Group remains, for the moment, a work in progress. The Directors enter 2011 with optimism that we have the capability and determination to complete the turnaround of the Group.

The Board and Staff

This has understandably been a difficult and challenging period for the Group. I would firstly like to place on record my thanks to all board members and staff who continue to put this business first and their effort and dedication continues to be highly valued and very much appreciated.

Charles Green – Non-Executive Chairman
28 February 2011

Chairman's Statement

Introduction

This has continued to be a difficult trading period following the unprecedented collapse in markets and institutions of the prior year. The potential contingent property liability linked to the Aldgate development (specifically the previously disclosed £11.55 million liability which is attached to certain Loan Notes provided by a number of retail investors), which in turn was dependent upon the bank funding agreement with Heritable Bank PLC, had previously cast some uncertainty over the Group. The Group and its investment partner, JV Finance Limited have in the period invested combined funds of £18.2 million into JV Finance Ventures Limited in order to discharge the amounts owed to the Administrator of Heritable Bank and outstanding construction costs. This investment of which the Group contributed £6.7 million has now secured the release of the Aldgate site from Heritable Bank and the necessary construction warranties for the future development of the site.

The disposal of the Group's Wealth Management businesses in December 2009 has strengthened the Group's financial position. Post year end in line with the Group's continued strategy of concentrating in the property sector, Formation Asset Management Limited was placed into Creditors Voluntary Liquidation (CVL). In addition, Formation Architectural Design Limited has been wound down from June 2010 due to subdued market activity, with all architectural work now outsourced to independent practices. The primary focus of the Group now remains on the property sector. The acquisition of Proactive Sports Management Limited, a previously owned company, in July 2010 was to assist in the conduct of ongoing sports related litigation matters.

The Group remains confident of successful outcomes to its sports related litigation and on the ability of the property sector to recover from recent recessionary events and looks forward to future growth in this field.

DAVID KENNEDY
Chief Executive Officer

NOEL O'CARROLL
Director of Property

DESMOND KHAN
Finance Director

MICHAEL KENNEDY
Non-Executive Director

PATRICK KENNEDY
Non-Executive Director

Chief Executive Officer's Report

Results

The trading results for the year have been impacted by the weak property market and lack of availability of development funding. Sports related litigation costs and the placing of Formation Asset Management Limited in CVL have also impacted results. For the year ended 31 August 2010, the Group revenue from continuing operations was £2.2 million (2009: £19.0 million) resulting in a loss before taxation and exceptional items from continuing operations of £1.2 million (2009: loss of £2.9 million).

Dividend

Historically the Group has always sought to reward shareholders by way of an annual dividend payment. In the last two years however the Group has not done so following careful consideration set in context with the uncertainty we found ourselves in following the administration of Heritable Bank PLC.

Whilst we have strengthened our position in this regard, trading remains weak, hence the Directors, after careful consideration have decided not to pay a shareholders dividend. The decision will continue to be reviewed and monitored as the Group's resources and performance improves.

Chief Executive Officer's Report *continued*

Business Overview

The company is now predominately a construction and property development/management business generating income through project developing/management of small/medium to large scale building projects.

We are currently involved in three large and four small/medium sized schemes which are each at various stages of the planning/development process.

These schemes are:

(i) 15–17 Leman Street, London E1.
Planning and preconstruction in connection with a 251 bedroomed hotel.

(ii) Clancy Quay, South Circular Road, Islandbridge, Dublin Ireland.
Project management on the construction of 420 apartments, car parking, retail units and office space on Phase 1 (now completed) of this large inner city mixed use scheme.

(iii) No.1 Commercial Street, London E1.
Preconstruction procurement, feasibilities, site maintenance etc. in anticipation of a remobilisation of a mixed use new build development incorporating 212 apartments, car parking and approximately 10,000 sq.m. of various commercial uses.

(iv) 9–15 The Parade, Stroud Green Road, London N4.
Project management on the construction of 35 apartments and a large ground floor and basement retail unit.

(v) 110–114 Elmore Street, London N1.
Project management on the conversion of a warehouse into 17 apartments, 1 house and a commercial unit.

(vi) 175–180 Church Road, St. George, Bristol.
Development of a new build project incorporating 15 apartments, 4 retail units and associated car parking.

(vii) York House, Upper Piccadilly, Bradford, BD1 4PB.
Development of a Grade II Listed Building into 23 apartments and I commercial unit.

Inevitably this area of our business has, and will continue in the short term to come under pressure. Bank debt, so often a pre-requisite to large scale developments is in short supply with banks being more selective and aggressive with their terms. We remain fortunate in having forged an inner London reputation in the construction sector and intend to focus on this geographical area in the future. The London property market remains buoyant and likely to outpace other areas of the country in its recovery.

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 personnel and presently shows an operating profit.

Development Updates

Various feasibility studies, small site management and architectural works (externally appointed) in association with smaller planning applications continue as part of our routine business process.

1. 15–17 Leman Street, London E1, has been the subject of a planning appeal following a planning refusal during the period. Preconstruction design, liaison with engineers, specialist contractors and neighbours has continued in anticipation of a site start in 2011.

2. Clancy Quay, Dublin Ireland has completed on Phase 1 of this large mixed use scheme. It is unlikely that further phases of the scheme will commence in the foreseeable future due to the present economic environment. We are presently assisting the developer in finalising contractors accounts, outstanding defects and compiling proposals for the future development/management/letting of the various phases within the scheme.

3. No.1 Commercial Street, London E1. As disclosed previously, following the demise of Heritable Bank and suspension of construction works on site in October 2008 the development was secured from the bank's administrator in December 2009.

4. 9–15 The Parade, Stroud Green Road, London N4. We are providing project management services on this mixed use scheme, which was purchased by our client as a partially built building. Works are anticipated for completion by August 2011.

5. 110–114 Elmore Street, London N1. We are providing project management services on this turn of the century warehouse conversion into apartments, a house and commercial unit. Works are scheduled for completion by June 2011.

6. 175–180 Church Road, St. George, Bristol. We, through F.G. (Bristol) Limited, purchased this partially built mixed use site comprising 15 apartments, 4 retail units and associated parking in June 2010. Construction works are in progress with completion anticipated by March 2011.

7. York House, Upper Piccadilly, Bradford, BD1 4PB. We through F.G (Bradford) Limited purchased this Grade II Listed building in June 2010. The building has a planning approval for conversion to 23 apartments and a commercial unit. Construction works are in progress with completion anticipated by July 2011.

Risks and Uncertainties

Potential Property Liabilities
The administration order in relation to Heritable Bank PLC, first detailed within our Preliminary announcement in November 2008, resulted in uncertainty over a contingent liability in relation to the Aldgate development. The Groups current maximum liability under this arrangement remains £11.55 million.

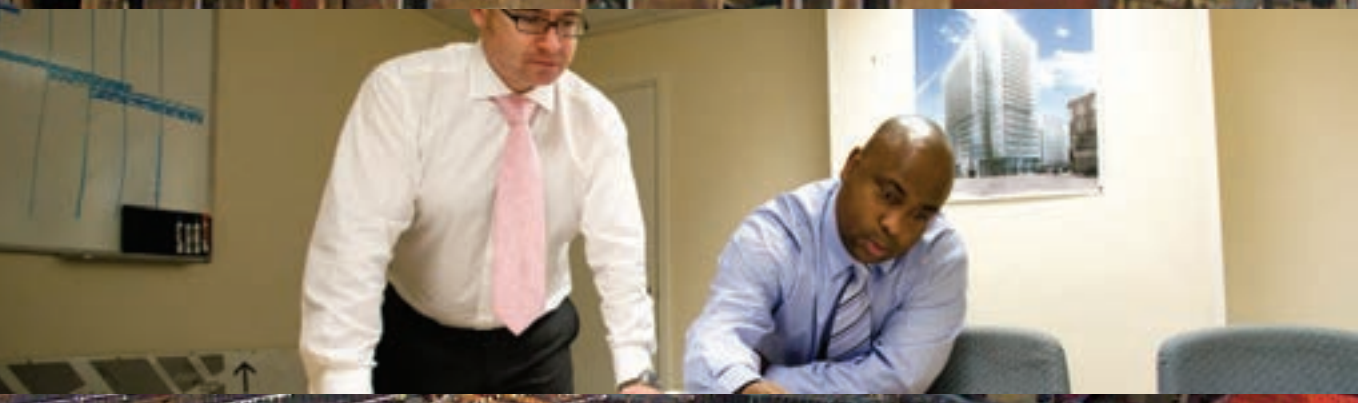
However, the announcement on 14th December 2009, that Julius Properties Limited (JPL) had reached agreement with the administrator of Heritable Bank PLC regarding the Aldgate development was an important step for the Group. It was agreed that the administrator would accept £11 million in full and final settlement of the £32.9 million indebtedness to Heritable Bank.

Formation Group PLC in conjunction with JV Finance Limited have contributed through JV Finance Ventures Limited a combined sum of £18.2 million, (Formation Group's own contribution being £6.7 million) on terms as announced on 2nd September 2010 in order to settle with both Heritable's administrator and outstanding creditors in order to secure the Aldgate site and the necessary warranties for completed construction works.

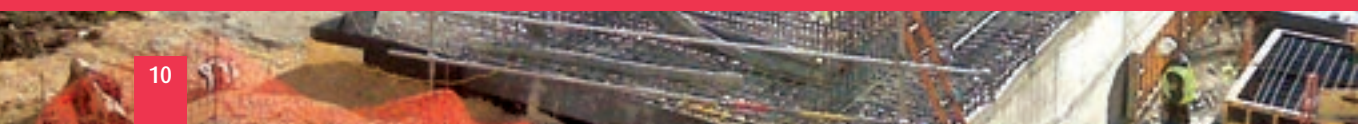
The Board believes that its investment in JV Finance Ventures Limited represents a positive step forward towards the repayment of the loan note investors in the Aldgate development, which would in turn eliminate the Groups contingent liability.

Discussions in the present difficult financial environment have commenced with various institutions to secure the requisite funding to enable to the Aldgate project to be completed. Once more clarity has developed on this front we will be in a position to provide a completion timescale and liaise with all development investors to discuss what, if any impact, we expect on loan note repayment. Under the terms of the existing loan note agreements a return is due to investors in August 2011.

The Whitechapel Property Fund which was raised on 52–58 Commercial Road, London E1, is due for repayment by the end of February 2011 by Rocquefort Properties Limited. The Board of Formation Group understands that sufficient properties are now exchanged and assets available to meet all of Rocquefort's obligations thereby eliminating any resource to Formation Group's guarantee.



Chief Executive Officer's Report *continued*



Divested Business

The last two years have seen a substantial refocus in the Group's activities. The recommendation by the Board and subsequent approval by shareholders to dispose of certain non-related businesses has strengthened the Group's financial position and made available the necessary cash reserves available to participate in resolving Aldgate's banking difficulty as a result of Heritable Banks demise. Whilst it is of paramount importance to ensure that the Aldgate loan notes are repaid, we expect to financially benefit from the investment in JV Finance Ventures Limited once the issues surrounding the development are resolved and loan notes settled.

Internal restructuring, wage freezes, redundancies and continued cost cutting over the past two years have all ensured that the core property business remains competitive, whilst also maintaining a strong nucleus to assist in the anticipated future growth of the recently subdued property market.

Outlook

The business has undergone significant change over the past two years. The Group has taken the necessary steps by utilising part of the cash resources generated as a result of the prior year MBO in helping to secure a future resolution to the Aldgate loan note contingent liability problem. However this remains a significant issue to resolve given the current difficult banking environment with limited funds available and difficult borrowing criteria.

The outlook is best summarised as cautiously optimistic. The Company will continue to seek to conclude the key development at Aldgate, satisfy the loan note position of retail investors, and successfully conclude sports management related litigation with the assistance of the recently acquired Proactive Sports Management Limited. We also believe that the business is now in a position where it is ready to prosper from any recovery in the property and finance/lending markets that materialises.

David Kennedy – Chief Executive Officer
28 February 2011

Annual Report and Financial Statements for the Year Ended 31 August 2010

Registered Number: 04145632

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's reports, for the year ended 31 August 2010.

Principal activities and business review
The principal activities of the Group are the provision of professional construction management services and the provision of management services to clients within sports sector. During the year the group discontinued its IFA services to clients within the sports, music and entertainment sectors as well as other high net worth individuals and trusts.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 5 to the Company 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 is contained in the Chief Executive Officer's report.

Results and dividends
The audited financial statements for the year ended 31 August 2010 are set out on pages 25 to 82. The Group's profit for the year after taxation was £1,377,000 (2009 – loss of £26,771,000).

The Directors are not recommending the payment of a final dividend (2009 – No Dividend). No interim dividend was declared this year (2009 – £Nil).

Directors
The Directors who served during the year and thereafter were as follows:

D Kennedy	CEO (appointed 16 February 2010)
J.E. Lawrence	Non-Executive Chairman (resigned 30 June 2010)
C A Green	Non-Executive Chairman (appointed 8 October 2010)
M. Kennedy	Non-Executive Director
P. Kennedy	Non-Executive Director
D. Khan	Finance Director (appointed 25 January 2010)
I. Battersby	Director of Wealth Management (resigned 30 November 2009)
N. O'Carroll	Property Director and acting CEO up to 15 February 2010

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 6 to the consolidated 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 2010 were equivalent to 65 days' (2009 – 48 days') purchases, based on the average daily amount invoiced by suppliers during the year.

Substantial shareholdings
On 30 November 2010 the Company had been notified of the following interests in the ordinary share capital of the Company:

Name of holder	Beneficial holder	Number	Held (%)
Streetwise Limited	Balchan Management Limited (in its capacity as trustee)	74,747,354	33.90
Fitel Nominees Limited	Balchan Management Limited (in its capacity as trustee)	31,322,813	14.20
Kennedy Trusts	Balchan Management Limited (in its capacity as trustee)	8,823,529	4.00
Rock Nominees Ltd	Castlegate Capital LLP	7,796,667	3.54
Fitel Nominees Ltd	Formation Group Plc – Treasury Account	15,982,258	7.25
K.B. Moran	K. B. Moran	11,256,916	5.10
Strand Nominees Limited	P. Stretford	8,156,000	3.70

Transactions in the Company's own shares
During the year, the Company did not purchase any of its own shares.

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, the Non-Executive share option plan and the Long Term Incentive Plan (all share option plans) are open to senior employees within the Group. Options granted under the plans are exercisable after 3 years and lapse after 10 years. At 31 August 2010, a total of 3 employees had options granted under these plans.

Charitable and political donations
The Group made charitable donations of £7,083 in the year (2009 – £10,000). The Group did not make any political contributions.

Auditors
A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board,

D. Khan
Secretary

Oakwood House
414 - 422 Hackney Road
London
E2 7SY

28 February 2011

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 Property Director and three Non-Executive Directors. The Company Secretary also attends the board meetings. 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.

David A Kennedy (Aged 32) Chief-Executive Officer
David represents the interests of the Group's largest shareholder the David Kennedy Family Trust. David has a background in property development and adds significant strength to the board in this area, holding other directorships within the property sector.

Charles Green (Aged 57) Non-Executive Chairman
Chares Green is currently a partner in Fort Blackhouse Partnership Limited and a director of Our Enterprise Haslar Limited and Azure International Limited. Within the last 10 years he had been a director of Proactive Plc, Kingsbridge Plc, Medical Solutions Plc and HFG Limited.

Noel O'Carroll (Aged 51) Property Director
Noel O'Carroll is Managing Director of the Property Segment. He is a member of the Royal Institution of Chartered Surveyors. Noel has a professional practice and contracting background, both in the UK and overseas, in civil engineering and construction.

Desmond Khan (Aged 48) Finance Director
A Fellow of the Association of Certified Chartered Accountants with vast previous experience operating within various sectors of the construction industry. Desmond joined the business as Financial Controller in 1997, progressing to position of Finance Director of Formation Design & Build Limited in 2000 and Formation Architectural Design Limited in 2007. Desmond was appointed Group Finance Director on 25 January 2010

Michael Kennedy (Aged 67) Non-Executive Director
Michael Kennedy joined the Group in January 2005. He is a Senior Partner at the law firm Herbert Reeves & Co. and specialises in property law. He has also represented football players for more than 20 years.

Patrick Kennedy (Aged 30) Non-Executive Director
Patrick represents the interests of the Group's largest shareholder the David Kennedy Family Trust. Patrick has a background in property development and adds significant strength to the board in this area, holding other directorships within the property sector.

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.

Nominations Committee
The Board operates a Nominations Committee for the appointment of Directors. The members of the Committee are C. A. Green (Chairman), M. Kennedy and P. Kennedy. The Nominations 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 Nominations 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 one 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 appointment, 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 Grant Thornton UK LLP for non-audit work. The fees for non-audit work are analysed in note 4 to the consolidated financial statements. The Audit Committee has concluded that no conflict of interest exists between the Grant Thornton UK 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 C. A. Green (Chairman), M. Kennedy and P. Kennedy. The Board also attends Audit Committee meetings by invitation.

Directors' Responsibilities
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 Groups' 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. Information is collated by the Board on an ongoing basis to assess the effectiveness of the system of internal control. In addition, the Board monitors the Group's significant risks continually.

Introduction
This report has been voluntarily prepared and follows the guidance contained in the Directors' Remuneration Report Regulations 2002, which introduced 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. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be laid for approval.

The unaudited information is included below, whilst the audited information is included within note 6 to the consolidated financial statements.

Unaudited information

Remuneration Committee
The Committee consists of the three Non-Executive Directors: C. A. Green, M. Kennedy and P. Kennedy. The Committee is chaired by C. A. Green 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 6 to the consolidated 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 Group 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 further share option plans, the EMI plan, the unapproved plan and the Non-Executive plan. Grants of options under these plans are at market value.

Service agreements
All Executive Directors have service contracts with at least six 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.

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

	Date of contract	Notice period
D. Khan	25 January 2010	6 months
N. O'Carroll	25 May 2007	6 months

By order of the Board,

C. A. Green
Chairman - Remuneration Committee

28 February 2011

Financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union and financial statements for the parent company in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Other matters
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 auditor's 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 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 auditor's 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
As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 August 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Other matters
We have reported separately on the parent company financial statements of Formation Group plc for the year ended 31 August 2010.

Joanne Kearns
Senior Statutory Auditor

For and on behalf of:
Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
Manchester

28 February 2011

Consolidated Income Statement

For the year ended 31 August 2010

	Notes	2010 £'000	2009 £'000
Continuing operations			
Revenue	2	**2,248**	18,953
Cost of sales		**(311)**	(15,911)
Gross profit		**1,937**	3,042
Administrative expenses		**(3,011)**	(5,477)
Operating loss from continuing operations	2	**(1,074)**	(2,435)
Investment income	3	**-**	4
Finance costs	3	**(104)**	(486)
Loss before taxation and exceptional items		**(1,178)**	(2,917)
Exceptional Items	8	**3,675**	(17,824)
Profit/(loss) before taxation		**2,497**	(20,741)
Taxation	7	**7**	277
Profit/(loss) for the year from continuing operations		**2,504**	(20,464)
Discontinued operations			
Loss for the year from discontinued operations	9	**(1,127)**	(6,307)
Profit/(loss) for the year	4	**1,377**	(26,771)
Attributable to:			
Equity holders of the parent		**1,377**	(26,793)
Minority interests		**-**	22
		1,377	(26,771)
Earnings/(loss) per share			
From continuing operations			
Basic	10	**1.22p**	(9.56p)
Diluted	10	**1.22p**	(9.56p)
From discontinued operations			
Basic	10	**(0.55p)**	(2.96p)
Diluted	10	**(0.55p)**	(2.96p)
From continuing and discontinued operations			
Basic	10	**0.67p**	(12.52p)
Diluted	10	**0.67p**	(12.52p)

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2010

	2010	2009
	£'000	£'000
Profit/(loss) for the year	**1,377**	(26,771)
Other comprehensive (expenses)/income:		
Exchange gain on foreign currency translation of foreign operations	**-**	44
Total comprehensive income/(expense) for the year	**1,377**	(26,727)
Attributable to:		
Equity holders of the parent	**1,377**	(26,749)
Minority interests	**-**	22
	1,377	(26,727)

Consolidated Statement of Financial Position

31 August 2010

	Notes	2010 £'000	2009 £'000
Non-current assets			
Goodwill	13	**10,825**	10,805
Other intangible assets	12	**3**	3
Property, plant and equipment	14	**36**	73
Investments accounted for using the equity method	15	**6,768**	-
Deferred tax asset	22	**-**	229
		17,632	11,110
Current assets			
Inventories	16	**1,826**	22
Trade and other receivables	17	**2,035**	2,140
Cash and cash equivalents	18	**286**	15,154
		4,147	17,316
Total assets		**21,779**	28,426
Current liabilities			
Trade and other payables	19	**(2,190)**	(4,958)
Current income tax liabilities		**(343)**	(536)
Bank overdrafts and loans	20	**(1,939)**	(7,010)
		(4,472)	(12,504)
Net current (liabilities)/assets		**(325)**	4,812
Total liabilities		**(4,472)**	(12,504)
Net assets		**17,307**	15,922

Consolidated Statement of Financial Position

31 August 2010

	2010	2009
	£'000	£'000
Equity		
Share capital	**2,205**	2,205
Share premium account	**2,106**	2,106
Treasury shares	**(602)**	(602)
Capital redemption reserve	**61**	61
Merger reserve	**11,265**	11,265
Currency reserve	**-**	94
Share option reserve	**22**	55
Retained earnings	**2,250**	738
Total equity attributable to the parent's shareholders	**17,307**	15,922
Minority interests	**-**	-
Total equity	**17,307**	15,922

The financial statements were approved by the Board of Directors on 28 February 2011 and signed on its behalf by:

Desmond Khan FCCA
Director

Registration number: 4145632

31 August 2010

Treasury shares
The treasury shares represents 15,982,258 (2009: 15,982,258) ordinary shares of 1p each in the share capital of the Company.

	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 2008	2,205	2,106	(102)	61	20,326	324	50	18,142	43,112
Acquisition of own share capital	-	-	(500)	-	-	-	-	-	(500)
Realisation of merger reserve on disposal of subsidiaries	-	-	-	-	(9,061)	-	-	9,061	-
Share based payment charge	-	-	-	-	-	154	-	-	154
Deferred tax on share options	-	-	-	-	-	(95)	-	-	(95)
Transfer to retained earnings	-	-	-	-	-	(328)	-	328	-
Movement in minority interest	-	-	-	-	-	-	-	(22)	(22)
Transactions with owners	-	-	(500)	-	(9,061)	(269)	-	9,367	(463)
Loss for the financial period	-	-	-	-	-	-	-	(26,771)	(26,771)
Other comprehensive income									
Exchange differences on translating foreign operations	–	–	–	–	–	–	44	–	44
Total comprehensive income for the year	–	–	–	–	–	–	44	(26,771)	(26,727)
Balance at 31 August 2009	**2,205**	**2,106**	**(602)**	**61**	**11,265**	**55**	**94**	**738**	**15,922**

31 August 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	Retained earnings £'000	Total equity £'000
Share based payment charge	-	-	-	-	-	8	-	-	8
Transfer to retained earnings	-	-	-	-	-	(41)	-	41	-
Transactions with owners	-	-	-	-	-	(33)	-	41	8
Profit for the financial period	-	-	-	-	-	-	-	1,377	1,377
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	-	-	-	-	(94)	94	-
Total comprehensive income for the year	-	-	-	-	-	-	(94)	1,471	1,377
Balance at 31 August 2010	**2,205**	**2,106**	**(602)**	**61**	**11,265**	**22**	**-**	**2,250**	**17,307**

Consolidated Statement of Cash Flows

For the year ended 31 August 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Cash used in operations	24	**(4,129)**	(38)
Income taxes paid		**(223)**	(1,239)
Interest paid		**(104)**	(432)
Net cash outflow from operating activities		**(4,456)**	(1,709)
Investing activities			
Interest received		**-**	59
Proceeds on disposal of property, plant and equipment		**6**	1
Purchases of property, plant and equipment		**(52)**	(89)
Deferred consideration received/(paid)		**250**	(3,310)
Purchase of investments		**(5,545)**	-
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)
Net cash (used in)/generated by investing activities		**(5,341)**	12,141
Financing activities			
Dividends paid		**-**	-
Purchase of own shares		**-**	(500)
New loans		**1,939**	2,000
Loan repayments		**(7,010)**	(833)
Repayments of obligations under finance leases		**-**	(17)
Net cash (used in)/generated by financing activities		**(5,071)**	650
Net (decrease)/increase in cash and cash equivalents		**(14,868)**	11,082
Cash and cash equivalents at the beginning of the year		**15,154**	4,028
Effect of foreign exchange rate changes		**-**	44
Cash and cash equivalents at the end of the year		**286**	15,154

General information
Formation Group PLC is a company incorporated in the United Kingdom under The Companies Act 2006. The address and registered office is Oakwood House, 414–422 Hackney Road, London, E2 7SY. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 13.

The financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out in note 1.

The accounting policies set out below have been applied to all periods presented in the consolidated financial statements. A third statement of financial positions has not been prepared as required by IASI (revised) as the information is unchanged from the previously reported financial statements.

1. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union (EU) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). 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 IFRIC.

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 financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

This year the Group adopted IFRS 8 Operating Segments which replaces IAS 14 Segment Reporting. The standard is applied retrospectively. The accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In contrast, IAS 14 required the Group to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. This change in accounting standards has not had an impact on group segmental reporting.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Consolidated Financial Statements. A third statement of financial position has not been prepared as required by IAS 1 (revised) as the information is unchanged from the previously published financial statements.

Basis of preparation
The Directors have prepared working capital forecasts for the period to 31 August 2012. The working capital forecasts assume that no cash outflows in respect of the loan note guarantees will occur as detailed in note 28 of the consolidated financial statements, and that funding will be made available to complete the Aldgate development.

The Directors are satisfied that the forecast level of trading performance and cash flows are achievable and that the Group will therefore be able to continue to operate for the foreseeable future.

1. Significant accounting policies *continued*

Whitechapel Development
The bondholders are due to be repaid on the 28 February, 2011 by Rocquefort Properties Limited. The Board of Formation Group Plc understands that sufficient properties are now exchanged and assets available to meet all of Rocquefort's obligations thereby eliminating any recourse to Formation Group's guarantee.

Aldgate Development
Details of the progress made during the year in respect of the Aldgate development are set out in the Chief Executive Officer's Report. Discussions are currently ongoing with potential purchasers/tenants for the residential and commercial elements of the scheme for which a number of offers have been received. In addition, discussions are relatively advanced with a number of institutions to secure funding to fund the development to completion. The directors are confident that sufficient funds will be available to reach a settlement with all loan holders whose investments are due for repayment in August 2011.

Basis of consolidation
The Group's financial statements consolidate the results of Formation Group PLC and entities controlled by the Company (or its subsidiaries) made up to 31 August each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so 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 a subsidiary 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. IFRS 3 'Business Combinations' (Revised 2008) is effective for this period but has had no impact. The revised standard will be applied to future acquisitions.

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.

Negative goodwill, which does not relate to expectations of future losses, is recognised as a gain in the income statement.

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.

1. Significant accounting policies *continued*

Investments in associates
The Group's investment in JV Finance Ventures Limited is initially recognised at cost and subsequently accounted for using the equity method. The carrying amount of the investments in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Amounts reported in the financial statements of associates and jointly controlled entities have been adjusted where necessary to endure consistency with the accounting policies of the Group.

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 less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Short leasehold improvements	Term of lease
Fixtures and fittings	5 years
Office equipment	Between 3 and 5 years
Motor vehicles	4 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

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.

Impairment testing of goodwill, other intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

1. Significant accounting policies *continued*

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 investment in JV Finance Ventures Limited 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 substantively 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.

1. Significant accounting policies *continued*

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 construction project management represents amounts chargeable for services provided and expenses recharged to clients. Services provided to clients during the year, which at the balance sheet date have not been billed, have been recognised as revenue. This is based on an assessment of the fair value of the services provided at the balance sheet date as a proportion of the total value of the contract. Profits are recognised in line with each separate supply. Where it is probable that total costs will exceed total revenue on a particular development, the expected loss is recognised as an expense immediately.

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

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

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

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 revenue 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 revenue 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 total of 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.

1. Significant accounting policies *continued*

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 currency 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
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.

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.

Inventories – work in progress
Work in progress is stated at the lower of cost and net realisable value, net of payments received on account. Net realisable value is based on the estimated selling price less any further costs expected to be incurred. Cost is assigned on a first in, first out cost formula for each project.

1. Significant accounting policies *continued*

Financial assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments.

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available. No financial assets are held which are categorised as at fair value through profit or loss or held to maturity investments.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and most other receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against loans and receivables are made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of recognised income and expense. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

An assessment for impairment is undertaken at least at each balance sheet date.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

1. Significant accounting policies *continued*

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. The Group does not currently hold any financial liabilities within this category.

All other financial liabilities are recorded initially at fair value, net of direct issue costs. These are subsequently recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest 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.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

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.

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 of the foreign currencies used by the Group, the use of forward exchange contracts is not considered necessary.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

1. Significant accounting policies *continued*

Equity
Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share capital to be issued" represents the total value of equity shares to be issued.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" represents the premium arising on share issued as part of share for share exchanges.
- "Share option reserve" includes equity-settled share-based employee remuneration until such share options are exercised.
- "Currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Retained earnings" represents retained earnings.
- "Treasury shares" represents ordinary shares held in the share capital of the Company.
- "Capital Redemption Reserve" represents a reserve required to prevent a reduction in capital on share buy back.

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.

Discontinued operations
A discontinued operation is a cash-generating unit, or a group of cash-generating units, that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

The disclosures for discontinued operations in the current and prior year relate to all operations that had been discontinued by the balance sheet date for the latest period presented.

1. Significant accounting policies *continued*

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 following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- ***Potential 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. Note 13 to the consolidated financial statements provides further details of the sensitivity testing that the Group has performed in respect of the carrying value of the goodwill attributed to the Professional Services cash generating unit.

- ***Potential crystallisation of Aldgate loan note guarantee obligation*** – delays to a major London property development may cause a loan note guarantee obligation (up to a maximum of £11.6 million) to crystallise in the next financial year. This matter is fully detailed in note 28 to the consolidated financial statements.

- ***Non-consolidation*** – the group does not consolidate Aldgate East Property Company Limited or the Whitechapel Property Fund Limited as the directors' do not consider these companies to be under the control of the group on the basis that it has no decision making power or the right to future benefits.

Standards and interpretations
At the date of authorisation of these consolidated financial statements, the following standards and interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective.

- IFRS 9 Financial Instruments (effective 1 January 2013)

- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)

- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)

- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)

- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)

- Disclosures - Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011)

- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

2. Segment information

For management purposes, the Group is organised into two operating segments; Professional Services and Management Services. These segments are the basis on which the Group reports its primary segment information. Professional Services includes construction project management. Management Services provides career management and representation advice to entertainers and athletes within the sports and entertainment sectors.

During the period, all subsidiaries in the Management Services segment were sold. Furthermore, the Architectural practice company operations were discontinued during the period leaving Formation Design & Build Limited as sole remaining activities in the Professional Services segment. The company reacquired Proactive Sports Management Limited, which provides Management Services within the professional football sector, on 15 July 2010. The results of Proactive Sports Management Limited have not been separately disclosed as part of acquired activities as they are not considered to be material.

Segment information about these businesses is presented below:

2010

	Management Services £'000	Professional Services £'000	Discontinued operations £'000	Consolidated £'000
Revenue	533	2,182	(467)	2,248
Segment operating (loss)/profit	(820)	410	856	446
Unallocated corporate expenses				(1,520)
Operating loss				(1,074)
Finance costs				(104)
Loss before taxation and exceptional items				(1,178)
Taxation				7
Exceptional items				3,675
Profit for the year from continuing operations				2,504
Loss for the year from discontinued operations				(1,127)
Profit for the year				1,377

2. Segment information *continued*

2009

	Management Services £'000	Professional Services £'000	Discontinued operations £'000	Consolidated £'000
Revenue	7,008	23,077	(11,132)	18,953
Segment operating profit/(loss)	569	2,914	(4,334)	(851)
Unallocated corporate expenses				(1,584)
Operating loss				(2,435)
Investment income				4
Finance costs				(486)
Loss before taxation and exceptional items				(2,917)
Exceptional Items				(17,824)
Taxation				277
Loss for the year from continuing operations				(20,464)
Loss for the year from discontinued operations				(6,307)
Loss for the year				(26,771)

2. Segment information *continued*

Other information 2010
The assets and liabilities of the management services segment, being Proactive Sports Management Limited is not considered to be significant, therefore no separate disclosure has been made. All other assets and liabilities relate to the professional services segment.

Other information 2009
Due to the disposal of the Management Services segment in the period all assets and liabilities are associated with the Professional services segment.

Discontinued operations
Discontinued operations in the year ended 31 August 2010 related to the disposal of trade and assets of subsidiary companies that took place on 11 December 2009 (Formation Asset Management Limited and Formation Wealth Solutions Limited) and the cessation of trading activities of Formation Architectural Design Limited in June 2010.

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

Geographical segments
The Group's principal operations in the year have been located in the United Kingdom, and the Republic of Ireland. The Professional Services segment is located in the United Kingdom and the Republic of Ireland. Revenue from the Group's discontinued operations was derived from the United Kingdom. The following table provides an analysis of the Group's revenue from continuing operations by geographical market irrespective of the origin of the services:

	Revenue by geographical market	
	2010	2009
	£'000	£'000
United Kingdom	**1,601**	17,841
Rest of the World	**647**	1,112
	2,248	18,953

During the year of review companies controlled by the David Kennedy Family Trust (the majority shareholder) attributed 89% (2010) of the revenue, 92% (2009).

All assets are located in the United Kingdom.

3. Investment income and finance costs

Investment income

	2010 £'000	2009 £'000
Bank interest receivable	**-**	4

Finance costs

	2010 £'000	2009 £'000
Interest on bank loan and overdraft		486

4. Profit/(loss) for the year

Profit/(loss) for the year is stated after charging:

	Continuing operations		**Discontinued operations**		**Total**	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Depreciation of property, plant and equipment	**65**	46	**18**	65	**83**	111
Impairment charge	**-**	17,824	**-**	-	**-**	17,824
Cost of inventories recognised as expense	**551**	16,099	**-**	-	**551**	16,099
Amortisation of trademarks and image rights	**-**	1	**-**	6	**-**	7
Employee costs (note 5)	**1,463**	3,250	**405**	4,121	**1,868**	7,371
Auditors' remuneration (see overleaf)	**72**	25	**-**	88	**72**	113

4. Profit/(loss) for the year *continued*

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

	2010 £'000	2009 £'000
Fees payable to the Company auditor for the audit of the parent and consolidated financial statements	**14**	22
Other fees to auditors – the audit of the Company's subsidiaries pursuant to legislation	**15**	23
Tax advisory	**18**	7
Tax compliance	**9**	14
Other advisory	**16**	47
	72	113

5. Employee costs

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

	2010 Number	2009 Number
Management Services	**1**	14
Professional Services	**10**	52
Administration	**4**	26
	15	92

	2010 £'000	2009 £'000
Their aggregate remuneration comprised:		
Wages and salaries	**1,681**	6,471
Social security costs	**180**	785
Other pension costs (see note 26)	**7**	115
	1,868	7,371

6. Directors' remuneration, interests and transactions

Aggregate remuneration

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

	2010 £'000	2009 £'000
Emoluments	**509**	1,011
Money purchase pension contributions	**3**	69
	512	1,080

Directors' emoluments

Name of Director	Fees/basic salary £'000	Bonuses £'000	Taxable benefits £'000	**2010 Total £'000**	2009 Total £'000
Executive					
N. Rodford	-	-	-	**-**	186
I. Battersby	32	-	1	**33**	119
M. Page	-	-	-	**-**	117
N. O'Carroll	171	-	-	**171**	141
P. Powell	-	-	-	**-**	172
D. Khan	159	-	-	**159**	-
Non-Executive					
J. E. Lawrence	71	-	-	**71**	172
M. Kennedy	75	-	-	**75**	84
C. A. Green	-	-	-	**-**	-
O. Kilkenny	-	-	-	**-**	20
Aggregate emoluments	508	-	1	**509**	1,011
Fees to third parties	72	-	-	**72**	40

Fees to third parties comprise amounts paid to PTK Consultants Limited and D A Kennedy under agreements to provide the Group with the services of Mr P. Kennedy and Mr D. A. Kennedy respectively.

6. 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 2009 Number	Options granted Number	Options surrendered Number	**At 31 August 2010 Number**	Exercise price	Date from which exercisable	Expiry Date
I. Battersby	EMI	450,000	-	(450,000)	**-**	-	-	-
	Unapproved	300,000		(300,000)	**-**	-	-	-
N. O'Carroll	Unapproved	300,000	-	-	**300,000**	22.75p	14/11/10	13/11/17
D. Khan	Unapproved	150,000	-	-	**150,000**	22.75p	14/11/10	13/11/17
J. E. Lawrence	NED	500,000	-	(500,000)	**-**	-	-	-
M. Kennedy	Unapproved	1,000,000	-	-	**1,000,000**	8.13p	02/02/08	01/02/15

The market price of the ordinary shares at 31 August 2010 was 1.38p and the range during the year was 4.74p to 1.20p. Share options are issued to senior executives of the Group and have performance targets relating to the Group's operating profit or EPS growth for each of the three years following the grant of the options. The Remuneration Committee believed that the use of the operating profit and EPS represents the most appropriate measures 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:

	2010 £'000	2009 £'000
N. Rodford	**-**	17
M. Page	**-**	11
I. Battersby	**3**	11
N. O'Carroll	**-**	30
	3	69

6. Directors' remuneration, interests and transactions *continued*

Directors' interests

The Directors who held office at 31 August 2010 had the following beneficial interests in the 1p ordinary shares of the Company:

	31 August 2008 Number	31 August 2009 Number
M.Kennedy	**50,000**	50,000
P. Kennedy/D. Kennedy	**114,893,696**	113,331,696

* includes holdings of the Kennedy Family Trusts, of which P. Kennedy/D Kennedy are the potential beneficiaries.

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

7. Tax on profit on ordinary activities

The tax (credit)/charge comprises:

	Continuing operations		Discontinued operations		Total	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Current tax	**(26)**	(204)	**56**	884	**30**	680
Deferred tax (note 22)	**19**	(73)	**210**	(37)	**229**	(110)
	(7)	(277)	**266**	847	**259**	570

UK corporation tax is calculated at 28% (2009: 28%) 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 period to disposal. No tax charge or credit arose on the disposal of the relevant subsidiaries.

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

	2010 £'000	2009 £'000
Profit/(loss) before tax		
Continuing operations	**2,497**	(20,741)
Discontinued operations	**(861)**	(5,460)
	1,636	(26,201)
Tax at UK corporation tax rate of 28% (2009: 28%)	**458**	(7,336)
Adjustment for tax-exempt income	**-**	2,605
Tax effect of expenses/income not deductible/taxable for tax purposes	**(236)**	5,237
Effect of different tax rates	**(5)**	290
Adjustment in respect of prior periods	**42**	(226)
Tax charge for the year	**259**	570

8. Exceptional items

Annual tests for impairment were carried out in the prior period and this has resulted in an impairment charge relating to the subsidiaries, Formation Asset Management Limited and Formation Design and Build Limited. The Board also assessed the fair values of the investment in CFGIL and the trade receivable balance from Julius Properties Limited, a related party company, owned by a majority shareholder. This resulted in write downs of the fair value.

In 2010 the amount due from Julius Properties Limited was received and the provision has been reversed.

	2010	2009
	£'000	£'000
Negative goodwill on acquisition of Proactive Sports Management Limited	**(228)**	-
Impairment charge – Formation Asset Management Limited	**-**	4,885
Impairment charge – Formation Design and Build Limited	**-**	4,630
Impairment charge – CFGIL	**-**	4,862
Fair value adjustment of trade receivable	**(3,447)**	3,447
Tax charge for the year	**(3,675)**	17,824

9. Discontinued operations

Discontinued operations relate to the disposal of the various subsidiary companies as referred to in the Directors Report.

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

	2010 £'000	2009 £'000
Revenue	**467**	11,132
Cost of sales	**(55)**	(398)
Gross profit	**412**	10,734
Administrative expenses	**(1,268)**	(6,400)
Operating (loss)/profit from discontinued operations	**(856)**	4,334
Exceptional items	**-**	-
Finance costs	**(5)**	-
Investment income	**-**	55
(Loss)/profit before taxation	**(861)**	4,389
Attributable tax expense	**(266)**	(847)
(Loss)/profit for discontinued operations	**(1,127)**	3,542
Loss on disposal of discontinued operations before taxation	**-**	(9,849)
Loss attributable to discontinued operations	**(1,127)**	(6,307)

During the year the company disposed of its wealth management businesses and ceased in architectural design. There has been no gain on the disposal/cessation on these businesses as no assets were transferred or immediate consideration received.

During the year, the Group had a net cash inflow from investing activities relating to the disposal of various subsidiary companies in the Group of £Nil (2009: £15,431,000 inflow relating to the Sports Marketing division).

The effect of discontinued operations on segment results is disclosed in note 2.

10. Earnings per share

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

	2010 £'000	2009 £'000
Basic and diluted earnings/(loss) – continuing operations	**2,504**	(20,464)
Basic and diluted (loss)/earnings – discontinued operations	**(1,127)**	(6,329)
Basic and diluted earnings/(loss) – continuing and discontinued operations	**1,377**	(26,793)

	2010 Number of shares '000	2009 Number of shares '000
Weighted average number of shares:		
Basic	**204,533**	214,017
Dilutive effect of share options	**-**	-
Diluted	**204,533**	214,017

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.

The share options in issue are anti-dilutive in respect of the basic loss per share calculations in 2010 and 2009 and have therefore not been included.

11. Dividends

There have been no distributions in the current or prior year.

12. Other intangible assets

	Trademarks £'000	Total £'000
Cost		
At 1 September 2008, 31 August 2009 and **31 August 2010**	7	7
Amortisation		
At 1 September 2008	7	7
Charge for the year	1	1
Disposal of subsidiary	(4)	(4)
At 1 September 2009 and at **31 August 2010**	4	4
Net book value		
At 31 August 2010	**3**	**3**
At 31 August 2009	3	3

13. Goodwill

Cost and net book value

	£'000
At 1 September 2008	47,409
Derecognised on disposal of a subsidiary	(27,089)
Impairment	(9,515)
At 1 September 2009	10,805
Proactive Sports Management Ltd - Goodwill	20
At 31 August 2010	**10,825**

During the year the group reacquired Proactive Sports Management Limited for £1 Negative goodwill of £228,000 was created on acquisition (due to the net assets acquired) and has been recognised in the income statement. Goodwill acquired in Proactive Sports Management Limited of £20,000 relates to a Rugby agency.

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:

	2010 £'000	2009 £'000
Management Services	**20**	-
Professional Services	**10,805**	10,805
	10,825	10,805

The Group tests goodwill annually for impairment, or more frequently if there are indications 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 practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for 20 years based on average estimated growth rates of 2% per annum for the first ten years and at nil% for the remaining period. This rate does not exceed the average long term growth rate for the relevant markets. The rate used to discount the forecast cash flows from all business units is 6% and after reviewing the group cash forecast no impairment charge was deemed necessary for the financial year in question.

Sensitivity analysis to likely and potential changes in key assumptions has been reviewed. The goodwill carrying value is not significantly sensitive to a reduction in growth rates. The discount rate would need to increase to 14% to initially impair the goodwill.

14. Property, plant and equipment

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2008	203	584	83	870
Exchange differences	-	3	-	3
Additions	-	89	-	89
Disposals	(12)	(1)	-	(13)
Disposal of subsidiaries	(170)	(454)	(35)	(659)
At 1 September 2009	21	221	48	290
Additions	-	52	-	52
Disposals	-	(6)	-	(6)
At 31 August 2010	**21**	**267**	**48**	**336**
Accumulated depreciation				
At 1 September 2008	94	382	64	540
Exchange differences	-	2	-	2
Disposals	(12)	-	-	(12)
Disposal of subsidiaries	(88)	(311)	(25)	(424)
Charge for the year	14	88	9	111
At 1 September 2009	8	161	48	217
Charge for the year	5	78	-	83
At 31 August 2010	**13**	**239**	**48**	**300**
Net book value				
At 31 August 2010	**8**	**28**	**-**	**36**
At 31 August 2009	13	60	-	73

15. Investments accounted for using the equity method

	2010 £'000	2009 £'000
Investment in JV Finance Ventures Limited	**6,768**	-

Formation Group PLC, in partnership with JV Finance Limited have contributed through JV Finance Ventures Limited a combined sum of £18.2 million, (Formation Group Plc's contribution of £6.7 million on terms as announced on 2nd September 2010) in order to settle with both Heritable's administrator and outstanding creditors in order to secure the Aldgate site and the necessary warranties for completed construction works.

Formation Group Plc's percentage shareholding in JV Finance Ventures Limited is 36.88% and is based on Formation's percentage share of long term loans in JV Finance Ventures Limited, £6.7m. On the basis that the loans are repayable in 10 years time and the percentage of the loan directly affects the shareholding, the loans have been treated as an investment in an associated undertaking and is accounted for under the equity method.

Management have considered the value of the investment and given the current status of plans to build out Aldgate and realise a profit on the development no impairment is considered necessary.

16. Inventories

	2010 £'000	2009 £'000
Work in progress	**1,826**	22

17. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	447	1,216
Allowance for doubtful debts	(154)	(104)
	293	1,112
Deferred consideration receivable	-	250
VAT	45	148
Other receivables and prepayments	1,697	630
	2,035	2,140

No interest is charged on any trade receivables that are overdue. A provision has been made for the estimated irrecoverable amounts included in trade receivables. This provision has been determined by reference to past default experience and knowledge of the individual circumstances of certain debtors.

Before accepting any new customer, the group assesses the potential customer's credit quality. Credit risk is managed on a regular basis in order to minimise the exposure by reviewing adherence to settlement terms.

In determining the recoverability of any trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the accounting period.

The ageing of trade receivables was as follows:

	2010 £'000	2009 £'000
Current	46	448
Past due but not impaired:		
0-30 days	2	164
30-60 days	78	34
60-90 days	3	70
> 90 days	164	396
Past due and impaired:		
30-60 days	-	6
60-90 days	-	-
> 90 days	154	98
	447	1,216

17. Trade and other receivables *continued*

Of the trade receivables 16 per cent (2009: 37 per cent) are neither past due or impaired.

The movements in the allowance for doubtful debts are as follows:

	2010	2009
	£'000	£'000
Balance at the beginning of the year	**104**	348
Amounts written off/collected	**(104)**	(317)
Provision created during the year	**154**	73
Balance at the end of the year	**154**	104

18. Cash and bank deposits

	2010	2009
	£'000	£'000
Cash in hand and at bank	**286**	15,154

19. Trade and other payables

	2010	2009
	£'000	£'000
Current:		
Trade payables	**972**	3,547
Other taxation and social security	**135**	119
Other creditors	**292**	68
Accruals and deferred income	**791**	1,224
	2,190	4,958

Trade creditors and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 65 days (2009: 44 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

20. Bank overdrafts and loans

	2010 £'000	2009 £'000
Current:		
Bank overdraft - rolling credit facility	-	3,000
Bank loan - term loan facility	1,939	4,010
	1,939	7,010
Non current:		
Bank loan - term loan facility	-	-

The borrowings are repayable as follows:

	2010 £'000	2009 £'000
On demand or within one year	1,939	7,010
In the second year	-	-
In the third to fifth year	-	-
Less: amount due for settlement within 12 months (shown under current liabilities)	1,939	7,010
	(1,939)	(7,010)
Amount due for settlement after 12 months	-	-

The weighted average interest rates paid were as follows:

	2010 %	2009 %
Rolling credit facility	-	3.66
Bank loan	4.00	3.66

FG (Bradford) Limited bank loan is repayable upon demand and interest payable is at the rate per annum which is the aggregate of 3% and the rate at which deposits in sterling are offered to the bank in the London Inter-Bank Market (subject to a minimum aggregate rate of 4% per annum).

FG (Bristol) Limited bank loan is repayable upon demand and interest payable is at the rate per annum which is 3% over the bank Base Rate (subject to a minimum Base Rate of 4% per annum).

21. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in note 1 of these financial statements.

(a) Categories of financial instruments

	2010	2009
	£'000	£'000
Financial assets		
Loans and receivables – other	**2,035**	2,140
Loans and receivables - cash and cash equivalents	**286**	15,154
	2,321	17,294
Financial liabilities		
Amortised cost	**2,911**	10,557

(b) Financial risk management objectives

The Group has a centralised financial risk management function which monitors and manages the financial risks relating to the operations of the Group. The primary risks faced by the Group are credit risk, interest risk and liquidity risk. The Board has reviewed and agreed policies for management of this risk. All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks.

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.

(c) Foreign currency risk management

There have been no significant foreign currency transactions in the period as all income is denominated in £ sterling.

(d) Finance and interest rate risk

The Group finances its operations through its retained earnings and has no revolving credit facility. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The weighted average interest rates paid were as follows:

	2010	2009
	%	%
Rolling credit facility	**-**	3.66
Bank loan	**4.00**	3.66

At 31 August 2010, it is estimated that a general increase of 1% in interest rates would decrease the group's profit before tax and its equity by approximately £19,000 (2009: £19,000).

21. Financial instruments *continued*

(e) 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 only transacts with entities that have a good credit rating. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts.

(f) Liquidity risk management

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.

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows. Liquidity risk poses lesser threat at the end of this reporting period due to the large cash balances held.

The following table details the Group's remaining contractual maturity of its non derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay the liability.

31 August 2010

	Less than 1 year £'000	1–2 years £'000	2–5 years £'000	Greater than 5 years £'000	Total £'000
Trade and other payables	2,190	-	-	-	**2,190**
Bank loans	1,939	-	-	-	**1,939**
	4,129	-	-	-	**4,129**

31 August 2009

	Less than 1 year £'000	1–2 years £'000	2–5 years £'000	Greater than 5 years £'000	Total £'000
Trade and other payables	4,958	-	-	-	4,958
Bank loans	7,010	-	-	-	7,010
	11,968	-	-	-	11,968

22. Deferred taxation

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

	Accelerated tax depreciation £'000	Share based payment £'000	Employee benefits £'000	Other £'000	Total £'000
At 1 September 2008	21	148	16	(50)	135
(Charge)/credit to income	(25)	(53)	-	188	110
Acquisition of subsidiary	-	-	-	(177)	(177)
Disposal of subsidiary	-	-	-	-	-
Other movement	-	(95)	-	-	(95)
At 1 September 2009	(3)	-	16	216	229
(Charge)/credit to income	3	-	(16)	(216)	(229)
At 31 August 2010	**-**	**-**	**-**	**-**	**-**

The group has losses of £1,948,000 available to carry forward against future profits, these have not been recognised as future recoverability is uncertain.

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.

	2010 £'000	2009 £'000
Deferred tax liabilities	-	(6)
Deferred tax assets	-	235
	-	229

23. Share capital

	2010 £'000	2009 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2009 – 300,000,000)	3,000	3,000
Allotted and called-up		
220,515,112 ordinary shares of 1p each (2009 – 220,515,112)	2,205	2,205

	Number	£'000
At 1 September 2009 and 31 August 2010	**220,515,112**	**2,205**

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

Share capital to be issued

The Company operates four share option schemes in relation to Group employees. Options are exercisable three 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 2010	2009
Unapproved share option scheme	12-Dec-03	12-Dec-06 to 11-Dec-13	8.13p	**1,000,000**	1,000,000
Enterprise management incentive plan	12-Dec-03	12-Dec-06 to 11-Dec-13	7.13p	-	800,000
Non Executive plan	12-Dec-03	12-Dec-06 to 11-Dec-13	7.13p	-	500,000
Unapproved share option scheme	15-Nov-07	15-Nov-10 to 14-Nov-17	22.75p	**450,000**	1,025,000
				1,450,000	3,325,000

23. Share capital *continued*

Movements in share options are summarised as follows:

	2010 Number of options	**2010 Weighted average exercise price pence**	2009 Number of options	2009 Weighted average exercise price pence
Outstanding at the beginning of the year	**3,325,000**	**11.95**	10,651,545	11.79
Options issued during the year	**-**	**-**	-	-
Surrendered or expired during the year	**(1,875,000)**	**15.14**	(7,326,545)	11.33
Outstanding at the end of the year	**1,450,000**	**7.82**	3,325,000	11.95
Exercisable at the end of the year	**1,000,000**	**7.13**	2,300,000	7.13

The options outstanding at 31 August 2010 have a weighted average exercise price of 11.95 pence and a weighted average remaining contractual life of 5.49 years.

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

		2010	2009
Weighted average share price	Pence	**7.13 to 23.75**	7.13 to 23.75
Weighed average exercise price	Pence	**7.13 to 23.75**	7.13 to 23.75
Expected volatility	%	**14 to 43**	14 to 43
Expected life	Years	**3**	3
Risk-free rate	%	**4.3 to 5.1**	4.3 to 5.1
Expected dividend rate	%	**0.5 to 1.2**	0.5 to 1.2

Expected volatility was determined by calculating the historical volatility of the Group's share price in the period prior to issue. The Group and Company recognised a total charge of £8,000 (2009: a charge of £154,000) related to equity settled share based payment transactions.

24. Reconciliation of profit from continuing operations to net cash inflow from operating activities

	2010 £'000	2009 £'000
Operating loss from continuing operations	**(1,074)**	(2,435)
Operating (loss)/profit from discontinued operations	**(861)**	4,334
Depreciation of property, plant and equipment	**83**	111
Amortisation of intangible assets	**-**	7
Share option charge	**8**	154
Operating cash flows before movements in working capital	**(1,844)**	2,171
(Increase)/decrease in inventories	**(1,804)**	569
Decrease/(increase) in receivables	**2,287**	(3,349)
(Decrease)/increase in payables	**(2,768)**	571
Cash used in operations	**(4,129)**	(38)

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.

25. Operating lease arrangements

	2010 £'000	2009 £'000
Minimum payments under operating leases recognised in income in the year	**102**	354

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	
	2010 £'000	2009 £'000
Group		
Within one year	**105**	143
In the second to fifth years inclusive	**228**	366
After five years	**-**	52
	333	561

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.

26. 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 £7,000 (2009- £115,000).

27. 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:

David Kennedy and certain trusts of which he is a named beneficiary (the "David Kennedy Family Trust") have an interest in 114,893,696 shares in the Company. During the year:

- Formation Design & Build Limited project managed a number of property developments owned by companies controlled by the David Kennedy Family Trust. Revenue from these contracts totalled £1,995,000 (2009 - £17,497,000) in the year. At 31 August 2010, the Group had debtor balances with these companies of £557,570 (2009 - £846,000).

- Formation Design & Build Limited leased premises from Columbia House Properties (No.6) Limited (a company controlled by the David Kennedy Family Trust) on a five year lease. The terms of the lease include a rental of £40,390 per annum. The charge for year was £39,658 (2009: £52,000) and £nil was owed to Columbia House Properties (No.6) Limited at 31 August 2010 (2009: £nil).

The Group disposed of the Wealth Management business on 11th December 2009. The business was sold to former Employees and a former Director of the Group, Ian Battersby. Full details of the disposal can be found in note 9 Discontinued activities.

The Group invested in JV Finance Ventures Limited on 14th December 2009 with JV Finance Limited. JV Finance Limited is owned by the Kennedy Family Trust, therefore, JV Finance Limited is viewed as a related party given its relationship with the Kennedy Family Trust, who are also the majority shareholder in Formation and as defined by the AIM Rules, the directors independent to the transaction are therefore required to consider, having consulted with the Company's Nominated Adviser, that the terms of the transaction are fair and reasonable.

The independent directors consider, having consulted with Zeus Capital in its capacity as the Company's nominated adviser, that the terms of these transactions are fair and reasonable insofar as shareholders of Formation are concerned.

27. Related party transactions *continued*

Key management compensation
The remuneration of Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in note 6 to the consolidated financial statements.

	2010 £'000	2009 £'000
Short-term employee benefits	**705**	1,011
Post employment benefits	**3**	69
Share-based payments	**8**	154
	716	1,234

28. Contingent liabilities and guarantees

In the year ended 31 August 2010, the Group acted as investment adviser to two bespoke property investment products which provided opportunities for the Group's high net worth clients to invest in property development schemes in a prime regeneration area in London.

Whitechapel Property Fund Limited ("Whitechapel")
Whitechapel issued £5.4 million of loan notes to the Group's clients on 28 February 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes were to be in issue for a minimum period of two years or a maximum of four depending on the build programme and success of the scheme.

Formation is entitled to a share of the residual profits of the related property development. Formation has underwritten half of the value of the loan and associated interest. The maximum liability in relation to this is £4.0 million. The directors have been in discussions with the loan note holders and are satisfied that the loan note holders will not enforce the guarantee prior to the proceeds being generated from the sale of certain of the units in the Whitechapel development, which will enable the loan note holders to be repaid.

No obligation in respect of this guarantee has therefore been recognised at 31 August 2010 (2009: £nil).

Aldgate East Property Company Limited ("Aldgate")
Aldgate, issued £19.78 million of junior unsecured loan notes and subordinated junior unsecured loan notes to clients introduced by the Group on 31 August 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes were to be in issue for a minimum period of two years or maximum of four depending on the build programme and success of the scheme.

Formation is entitled to receive a share of the residual profits of the related property development. Formation has underwritten half of the value of the junior unsecured loan notes and associated interest. The maximum liability in relation to this is £11.6 million.

Recent events in respect of the Aldgate development, notably the release of the Aldgate site from Heritable Bank, are outlined in the Chief Executive's report. In addition the group is currently in discussions with potential purchasers and with other institutions regarding the availability of immediate funding to complete the development.

28. Contingent liabilities and guarantees *continued*

The directors are also in discussions with the loan note holders and have presented them with a number of settlement options. As a result the directors are satisfied that the loan note holders will not enforce their guarantees on 31 August 2011.

No obligation in respect of this guarantee has therefore been recognised at 31 August 2010 (2009: £nil).

Tax investigation
HMRC has launched a tax investigation against FDB Limited, relating to its tax affairs prior to 2007, before it was acquired by Formation. The maximum assessment is £2 million. This investigation has not been concluded and the outcome is not known with any degree of certainty. Management however consider that any liabilities will be covered by warranties contained in the SPA agreement and as a result there will be no material exposure to the group.

29. Post Balance Sheet Event

The events detailed below have been announced to the market via the London Stock Exchange Regulatory News Services "RNS" and can also be accessed via the company website **www.formationgroupplc.com**

Formation Asset Management was placed into voluntary liquidation on 8 September 2010. The Board of Formation Asset Management Limited (FAM) has appointed Butcher Woods corporate recovery as liquidator. The Directors estimate that Formation Group Plc has no exposure to FAM.

Independent auditor's report to the members of Formation Group PLC
We have audited the parent company financial statements of Formation Group PLC for the year ended 31 August 2010 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 auditor's 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
As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at
www.frc.org.uk/apb/scope/UKNP

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not
- been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the group financial statements of Formation Group PLC for the year ended 31 August 2010.

Joanne Kearns
Senior Statutory Auditor

For and on behalf of:
Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
Manchester

28 February 2011

Company Balance Sheet

31 August 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	3	**2**	3
Tangible assets	4	**9**	29
Investments	5	**17,359**	10,591
		17,370	10,623
Current assets			
Debtors	6	**494**	912
Cash at bank and in hand		**2**	14,262
		496	15,174
Creditors: Amounts falling due within one year	7	**(1,935)**	(8,543)
Net current liabilities		**(1,439)**	6,631
Total assets less current liabilities		**15,931**	17,254
Creditors: Amounts falling due after one year	8	**-**	-
Net assets		**15,931**	17,254
Shareholders' funds			
Share capital	9	**2,205**	2,205
Share premium account	10	**2,106**	2,106
Treasury shares	10	**(602)**	(602)
Capital redemption reserve	10	**61**	61
Other reserves	10	**11,287**	11,320
Profit and loss account	10	**874**	2,164
Total shareholders' funds	10	**15,931**	17,254

The financial statements were approved by the Board of Directors on 28 February 2011 and signed on its behalf by:

Desmond Khan FCCA
Director

Basis of preparation
The accounts have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention. As permitted by the Companies Act 2006, 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 £1,331,000 (2009: loss of £20,828,000).

The consolidated financial statements of Formation Group PLC, which are presented separately, have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The principal applicable accounting policies applied under UK GAAP are summarised below. They have all been applied consistently throughout both the current and prior years.

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.

1. Principal accounting policies

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 less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Short leasehold improvements	Term of lease
Fixtures and fittings	5 years
Office equipment	Between 3 and 5 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.

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.

Classification as equity or financial liability
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

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. Employee costs

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

	2010 Number	2009 Number
Management Services	**-**	1
Professional Services	**-**	2
Administration	**4**	4
	4	7

	2010 £'000	2009 £'000
Their aggregate remuneration comprised:		
Wages and salaries	**333**	767
Social security costs	**36**	99
Other pension costs	**7**	33
	376	899

Directors' remuneration disclosure is included in note 6 to the consolidated financial statements.

3. Intangible fixed assets

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

	Trademarks £'000
Cost	
At 1 September 2009 and 31 August 2010	**7**
Amortisation	
At 1 September 2009	4
Charge for the year	1
At 31 August 2010	**5**
Net book value	
At 31 August 2010	**2**
At 31 August 2009	3

4. Tangible fixed assets

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2009	21	73	54	148
Reclassification	-	(6)	-	(6)
At 31 August 2010	**21**	**67**	**54**	**142**
Depreciation				
At 1 September 2009	8	57	54	119
Charge for the year	4	10	-	14
At 31 August 2010	**12**	**67**	**54**	**133**
Net book value				
At 31 August 2010	**9**	**-**	**-**	**9**
At 31 August 2009	13	16	-	29

5. Investments

	2010 £'000	2009 £'000
Subsidiary undertakings	**10,591**	10,591
Investment in JV Finance Ventures Limited	**6,768**	-
	17,359	10,591

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
Professional Services		
Formation Architectural Design Limited	England	Architectural design
Formation Design & Build Limited	England	Property project management
Proactive Sports Management Limited	England	Management and professional services
FG (Bristol) Limited	England	Property project management
FG (Bradford) Limited	England	Property project management

All investments in subsidiary undertakings are held directly by Formation Group PLC.

Subsidiary undertakings

	Subsidiary Undertakings £'000	Other Investments £'000	Total £'000
Cost			
At 1 September 2009	33,653	-	33,653
Investment in JV Finance Ventures Limited	-	6,768	6,768
At 31 August 2010	**33,653**	**6,768**	**40,421**
Provision for impairment			
At 1 September 2009 and 31 August 2010	**23,062**	**23,062**	**23,062**
Net book value			
At 31 August 2010	**10,591**	**6,768**	**17,359**
At 31 August 2009	10,591	-	10,591

6. Debtors

	2010 £'000	2009 £'000
Trade debtors	-	24
Amount owed by group undertakings	11	286
VAT	-	66
Other debtors	460	231
Deferred consideration receivable	-	250
Prepayments and accrued income	23	55
	494	912

7. Creditors: Amounts falling due within one year

	2010 £'000	2009 £'000
Bank loan and rolling credit facility	-	3,000
Bank loan	-	4,010
Trade creditors	53	354
Other creditors	163	-
Amounts owed to group undertakings	1,542	834
Other taxation and social security	58	31
Accruals and deferred income	119	314
	1,935	8,543

8. Creditors: Amounts falling due after one year

	2010 £'000	2009 £'000
Contingent and deferred acquisition consideration	-	-
Bank loan	-	-
	-	-

9. Share capital

	2010 £'000	2009 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2009 – 300,000,000)	**3,000**	3,000
Allotted and called-up		
220,515,112 ordinary shares of 1p each (2009 – 220,515,112)	**2,205**	2,205
		£'000
At 1 September 2009 and 31 August 2010		**2,205**

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

Share capital to be issued
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 Dec 2006 to 11 Dec 2013
Unapproved share option scheme	450,000	27.75p	15 Nov 2010 to 14 Nov 2013

10. Reserves

	Share capital £'000	Share Treasury shares £'000	Capital premium account £'000	redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 September 2009	2,205	(602)	2,106	61	11,320	2,164	**17,254**
Loss for the year		-	-	-	-	(1,331)	**(1,331)**
Share options		-	-	-	8	-	**8**
Share option reserve transfers to P&L reserve		-	-	-	(41)	41	**-**
At 31 August 2010	**2,205**	**(602)**	**2,106**	**61**	**11,287**	**874**	**15,931**

Treasury shares
Treasury shares represent 15,982,258 ordinary shares of 1p each in the share capital of the Company, that the company acquired for £602,000.

Other reserves
This reserve includes credits to equity for share-based payments and the premium on shares issued in share for share exchanges.

11. Related party transactions

During the year company charged management fees to its subsidiaries.

	Balance at year end debtor/(creditor)		Management fees	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Formation Design & Build Limited	**58**	220	**48**	-
Formation Architectural Design Limited	**1**	23	**3**	-
Proactive Sports Management Limited	**(125)**	-	**3**	-
Formation Wealth Solutions Limited	**64**	(573)	**1**	-
Formation Asset Management Limited	**-**	(137)	**132**	-
	(2)	(467)	**187**	-

12. Financial commitments

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

	Land and buildings	
	2010	2009
	£'000	£'000
Expiry date		
between two and five years	-	3
after five years	-	-
	-	3

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.

13. 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 £Nil (2009 – £33,000).

14. Contingent liabilities and guarantees

In the year ended 31 August 2010, the Group acted as investment adviser to two bespoke property investment products which provided opportunities for the Group's high net worth clients to invest in property development schemes in a prime regeneration area in London.

Whitechapel Property Fund Limited ("Whitechapel")
Whitechapel issued £5.4 million of loan notes to the Group's clients on 28 February 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes were to be in issue for a minimum period of two years or a maximum of four depending on the build programme and success of the scheme.

Formation is entitled to a share of the residual profits of the related property development. Formation has underwritten half of the value of the loan and associated interest. The maximum liability in relation to this is £4.0 million. The directors have been in discussions with the loan note holders and are satisfied that the loan note holders will not enforce the guarantee prior to the proceeds being generated from the sale of certain of the units in the Whitechapel development, which will enable the loan note holders to be repaid.

No obligation in respect of this guarantee has therefore been recognised at 31 August 2010 (2009: £nil).

Aldgate East Property Company Limited ("Aldgate")
Aldgate, issued £19.78 million of junior unsecured loan notes and subordinated junior unsecured loan notes to clients introduced by the Group on 31 August 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes were to be in issue for a minimum period of two years or maximum of four depending on the build programme and success of the scheme.

Formation is entitled to receive a share of the residual profits of the related property development. Formation has underwritten half of the value of the junior unsecured loan notes and associated interest. The maximum liability in relation to this is £11.6 million.

Recent events in respect of the Aldgate development, notably the release of the Aldgate site from Heritable Bank, are outlined in the Chief Executive's report. In addition the group is currently in discussions with potential purchasers and with other institutions regarding the availability of immediate funding to complete the development. The directors are also in discussions with the loan note holders and have presented them with a number of settlement options. As a result the directors are satisfied that the loan note holders will not enforce their guarantees on 31 August 2011.

No obligation in respect of this guarantee has therefore been recognised at 31 August 2010 (2009: £nil).

Notes

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