

Annual Report and Accounts 2012



Formation Group PLC

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

Registered number: 04145632



formation
GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2012

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The difficulties and challenges facing the company were no less than in the previous year. Financial markets are slowly improving and we look forward to realising the Groups plans in moving forward in the construction/property sector over the coming year. There has again been improvement in the Group's underlying financial performance this year. Expected profits from a longstanding involvement in a property development at 52-58 Commercial Road, London E1 have been recognised in this year's results. The continued efforts of the Directors and management are showing through financially as anticipated. The larger litigation issues surrounding the Group has been resolved in 2012 leaving the Board free to focus on the Groups future development.

The Chief Executive Officer's Report provides further detail on the individual projects, companies and properties within the Group at present. The large contingent liability exposures (£15.52million) on both Aldgate and Whitechapel were extinguished in January 2012. The Board believes that this together with the resolution of the major litigation issues surrounding the Group have transformed its credit rating for banking purposes. It anticipates that access to future cash incomes will allow the Group to drive further improvements, generate profits and enhance shareholder value.

This has been a transition year for the Group. It has streamlined its overheads and subsequent to the year end, issued termination of employment notices to D Khan and N O'Carroll to further minimise costs. The Group looks forward to the future with confidence.

The Board and Staff

The Group has achieved the majority of its targets over the past year, in a difficult and challenging environment. I would like to place on record my thanks to all board members and staff for their tireless efforts and dedication throughout the year. It is now evident that these efforts are achieving results which will make for a secure capital based Property Group going forward.



A handwritten signature in black ink, appearing to read 'David Kennedy', written in a cursive style.

David Kennedy
Non-Executive Chairman
27 February 2013



Chief Executive Officer's Report



DAVID KENNEDY
Non-Executive Chairman/
Chief Executive Officer



NOEL O'CARROLL
Director of Property



DESMOND KHAN
Finance Director



MICHAEL KENNEDY
Non-Executive Director



PATRICK KENNEDY
Non-Executive Director

Introduction

This has continued to be a tough year for the Group. The weakness in financial markets and continued lack of investor and consumer confidence has curtailed the Group's workload and ability to grow. The tough measures taken in recent years in regard to staffing, overheads etc. are however now benefiting the Groups' position.

The potential contingent property liability linked to the Aldgate development (the previously disclosed £11.55 million liability which was 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 as reported in last year's accounts 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 Plc and outstanding construction costs. This investment of which the Group contributed £6.7 million has secured the release of the Aldgate site from Heritable Bank Plc and the necessary construction warranties for the future development of the site.

An RNS update on Aldgate in August 2011 announced that Julius Properties Limited ("JPL") (owner of Aldgate site) had conditionally disposed of its interest in the site to a UK national housebuilder – Redrow.

The conditions of this agreement had to be satisfied by 22 February 2012 and consideration payable under the disposal agreement was to be split with part payable on completion and part being deferred. The deferred portion of the consideration was to be payable within 30 months of the completion date.

JPL has since this announcement on the 13th January 2012 completed the disposal of Aldgate. The contingent liability relating to Formations guarantee to assist JPL in repaying Aldgate East Property Company Limited a maximum of £11.55 million in respect of capital and interest on loan notes is therefore now extinguished.

The Directors also anticipate that JPL will, after receipt of the deferred element of consideration, be able to substantially repay the loans provided by JV Finance Ventures Limited in which Formation has a 36.88% equity interest.

The Group had positive outcomes in its sports related litigation in 2011. The acquisition of Proactive Sports Management Limited, a previously owned company, in July 2010 proved extremely beneficial in the finalization of some of these sports related litigation issues. Post year end in 2012 the remaining sports related litigation issues have been resolved on satisfactory terms.

The primary focus of the Group now remains on consolidation and the property sector. The Group expects to receive settlement of the deferred consideration payments from Aldgate by January 2014. The Directors look forward to future growth in the property sector and consolidating its cash position.

Results

The trading results for the year have been impacted by the weak property market and lack of availability of development funding. Continued litigation costs over the year have also impacted results. For the year ended 31 August 2012, the Group revenue from continuing operations was £2.4 million (2011: £6.0 million) resulting in a profit before taxation and exceptional items from continuing operations of £0.7 million (2011 loss: £1.5 million).

Dividend

Historically the Group has always sought to reward shareholders by way of an annual dividend payment. In the last four 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 Groups resources and performance improves.



Chief Executive Officer's Report *continued*

Business Overview

The Group is now predominately a construction and property development/management business, generating income through project development and management of small/medium scale building projects. Rental incomes are also generated on various residential and commercial investments retained by the Group and its subsidiaries.

Some schemes in which we have been involved this year are:

- (i) **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.
- (ii) **110–114 Elmore Street, London N1.**
Project management on the conversion of a warehouse into 17 apartments, a house and a commercial unit.
- (iii) **1–6 Batemans Row, London EC1**
Project management on the construction of 5 large penthouse apartments in a restricted inner London location above a seven storey building incorporating 36 No residential units and commercial spaces.
- (iv) **Anlaby House, 37 Boundary Street, London E1**
Project management on the construction of 3 penthouse apartments above a seven storey mixed use building.
- (v) **63–65 Princelet Street, London E1**
Project management on the construction of 10 apartments involving the conversion and rooftop extension of a warehouse building in a restricted inner London location.
- (vi) **2–6 Columbia Road, London E1**
Project management on the conversion of an existing residential building into 7 apartments.

- (vii) **16–28 Salter Street, London E14**
Project management on the demolition of a warehouse and new build construction of 18 apartments and a commercial unit adjoining the entrance to Westferry Road, Docklands Light Railway station.

- (viii) **115–119 Park Road, London N8**
Project management on the new build construction of 9 apartments and associated carparking on the site of a former pub.

- (ix) **15–17 Leman Street, London E1**
Co-ordination and management of the entire planning process in successfully obtaining a planning permission for a 251 bedroom hotel in Aldgate.

As stated in previous years, this area of our business has and continues in the short term to come under pressure. Bank debt, is in short supply with banks being more selective and aggressive with their terms. This situation reduces our ability to expand, although there is growing evidence of recent improvements on this front.

Proactive Sports Management Limited (a previously owned company) was acquired in 2010, primarily to assist in the conduct of various sports related litigation cases. The company has no employees and no longer manages sports personnel.



Chief Executive Officer's Report *continued*

Investment Properties Retained

The Group currently has an interest in the following income producing investment properties:

- (i) **52–58 Commercial Road, London E1**
Formation Group Plc had an entitlement to 40% of the profits of Rocquefort Properties Limited. This company presently retains commercial properties at the above address including, 17,000 sq. ft. of office and education use, a 1,500 sq. ft. retail unit, 25 basement car parking spaces and ground rent income from 142 residential units. The profit element on these properties attributable to Formation Group Plc is expected to be £1.24 million, as disclosed on the face of the consolidated income statement. It is likely that some of these properties will be sold in 2013 to consolidate the Group's financial position.

- (ii) **175–180 Church Road, St. George, Bristol**
FG (Bristol) Limited, a wholly owned subsidiary of Formation Group Plc, currently owns 15 apartments, 3 retail units and associated car parking at the above address. The apartments are income producing, whilst two of the retail units are unlet. Current gross rental income is £95,654 p.a. Dunbar Assets Plc currently provide non recourse funding, secured upon the scheme, of £2,101,049.

- (iii) **York House, Upper Picadilly, Bradford, BD1 4PB**
FG (Bradford) Limited, a wholly owned subsidiary of Formation Group Plc, currently owns 24 apartments and a retail unit at the above address. The apartments are income producing and the commercial unit remains available to let. Current gross rental income is £74,610 p.a. Dunbar Assets Plc currently provide non recourse funding, secured upon the scheme of £2,184,049.

Risks and Uncertainties

Going concern

As highlighted in note 1, the ability of the Group to continue trading as a going concern is dependent on the realisation of cash from The Whitechapel Development and new construction contracts being won in the next twelve months. There is a significant level of uncertainty over the ability of the Group to continue as a going concern, however, we have a reasonable expectation that the group has access to resources to continue in operational existence for the foreseeable future.



Chief Executive Officer's Report *continued*

Divested Business

The past four years have seen a substantial refocus in the Groups activities. The recommendation by the Board and subsequent approval by shareholders to dispose of certain non-related businesses has strengthened the Groups financial position and made the necessary cash reserves available to participate in resolving Aldgate's banking difficulty as a result of Heritable Bank PLC's demise. The subsequent conditional sale by Julius Property Limited of its interest in Aldgate has moved the Group a step closer to recouping its investment in Aldgate's rescue.

Restructuring over the past four years has ensured that the core property business remains competitive, whilst also maintaining a strong nucleus with future access to cash reserves which will enable the Group to grow and prosper.



Outlook

The business has undergone significant change and challenges over the past four years. It has been creative in its approach to such change and challenges, acquiring a previously owned company to assist in the conduct of its sports related litigation, quickly winding down and liquidating companies in order to reduce its cost exposure and making the hard decisions on staff and overheads as necessary in order to survive in an extremely difficult trading environment.

The outlook continues to be best summarised as cautiously optimistic. We believe the company is now in a position where it is ready to prosper from any recovery in the property and finance/lending markets that materialises. The company anticipates having recourse to its cash investment in Aldgate by January 2014 and the reinvestment benefits which may follow.

A handwritten signature in black ink, appearing to read 'D Kennedy', written over a light grey background.

David Kennedy
Chief Executive Officer
27 February 2013



Annual Report and Financial Statements for the Year Ended 31 August 2012

Registered Number: 04145632

Directors' Report

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 2012.

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 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 2012 are set out on pages 25 to 78. The Group's result for the year after taxation was a profit of £366,000 (2011 – loss of £11,278,000).

The Directors are not recommending the payment of a final dividend (2011 - Nil). No interim dividend was declared this year (2011 – £Nil).

Principal risks and uncertainties

The principal risks and uncertainties of the business are disclosed on page 5 of the Chief Executive Officer's Report.

Key Performance Indicators (KPIs)

Due to the significant changes within the Group during the year the Directors do not consider there to be any meaningful KPIs. In prior years gross profit was considered to be the most meaningful KPI, Gross Profit on project management was 13.1% in the year to 31 August 2012 (31 August 2011: 13.2%). The Directors currently consider working capital management and resolution of the Whitechapel and Aldgate developments to be the key risk considerations at the year end.

Risk Management policies

As disclosed in note 15, 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.

Directors

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

D. Kennedy	Non-Executive Chairman (appointed 22 February 2012)/CEO
C. A. Green	Non-Executive Chairman (resigned 22 February 2012)
M. Kennedy	Non-Executive Director
P. Kennedy	Non-Executive Director
D. Khan	Finance Director
N. O'Carroll	Property Director

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 2012 were equivalent to 95 days' (2011 – 116 days') purchases, based on the average daily amount invoiced by suppliers during the year.

Substantial shareholdings

On 30 November 2012 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	The Tulip Trust	74,747,354	33.90
Fitel Nominees Limited	Kennedy Private Trust Company Limited as trustees of The Kennedy Family Discretionary Settlement	31,322,813	14.20
Kennedy Private Trust Company Limited as trustees of The Kennedy Family Discretionary Settlement		8,823,529	4.00
Rock Nominees Ltd	Castlegate Capital LLP	7,446,667	3.38
Fitel Nominees Ltd	Formation Group Plc – Treasury Account	16,497,258	7.48
K. B. Moran	K. B. Moran	10,068,916	4.57
Lynchwood 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 2012, a total of 3 employees had options granted under these plans.

Charitable and political donations

The Group made charitable donations of £ Nil in the year (2011 - £ Nil). The Group did not make any political contributions.

Auditors

Grant Thornton UK LLP resigned as auditors of Formation Group Plc on 3 May 2012 and Grunberg & Co Limited were appointed as auditors of Formation Group Plc. A resolution to re-appoint Grunberg & Co Limited 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

27 February 2013

Corporate Governance

Introduction

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

Board of Directors

The Board currently comprises the Non-Executive Chairman/Chief Executive Officer, the Finance Director, the Property Director and two 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 Kennedy (Aged 35) 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.

Noel O'Carroll (Aged 52) 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 50) 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 69) 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 32) 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 D. Kennedy (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 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 Grunberg & Co. 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 Grunberg & Co. 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 D. Kennedy (Chairman), M. Kennedy and P. Kennedy. The rest of 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 Group's system of internal control, including financial, operational and compliance controls and risk management. The Board is responsible for reviewing its overall effectiveness of internal control. The system is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that, in accordance with the guidance "internal control: Guidance for Directors on the UK Corporate Governance Code 2010", 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.

Directors' Remuneration Report

Introduction

This report has been voluntarily prepared and follows the guidance contained in the Directors' Remuneration Report Regulations SI 2008/410 Schedule 8, which introduced statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2008. 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: D. Kennedy, M. Kennedy and P. Kennedy. The Committee is chaired by D. Kennedy 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 UK Corporate Governance Code 2010.

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,

David Kennedy
Chairman – Remuneration Committee

27 February 2013

Statement of Directors' Responsibilities

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and elected to prepare the financial statements of the parent company in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards/IFRSs 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is 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.

Independent Auditors' Report (on the consolidated financial statements)

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 2012 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 and express an opinion on 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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net profit of £366,000 during the year ended 31 August 2012.

As explained in note 1, the ability of the group to continue trading as a going concern is dependent on the realisation of profits due to the group from its share in the profits of The Whitechapel Development of £1.24 million. This coupled with existing and new building contracts would in a large part ensure that the company generates enough working capital to trade until February, 2014 when the repayment of its investment in the Aldgate Development commences.

These conditions, along with the other matters disclosed in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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 the 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 matter

We have reported separately on the parent company financial statements of Formation Group Plc for the year ended 31 August 2012. That report includes an emphasis of matter.

David Grunberg BA FCA
Senior Statutory Auditor

For and on behalf of:
Grunberg & Co Limited
Statutory Auditor
Chartered Accountants
10–14 Accommodation Road
London
NW11 8ED

28 February 2013

Consolidated Income Statement

For the year ended 31 August 2012

	Notes	2012 £'000	2011 £'000
Continuing operations			
Revenue	2	2,359	6,024
Cost of sales		(2,050)	(5,228)
Gross profit			
Administrative expenses		(848)	(1,747)
Operating loss from continuing operations			
Share of profit/(loss) from equity accounting investment	15	-	(534)
Share of profit from joint venture development		1,243	-
Finance (costs)/income	3	(40)	1
Profit/(loss) before taxation and exceptional items			
Exceptional Items	8	(136)	(10,444)
Profit/(loss) before taxation			
Taxation	7	-	300
Profit/(loss) for the year from continuing operations			
Discontinued operations			
(Loss)/profit for the year from discontinued operations	9	(162)	350
Profit/(loss) for the year			
Attributable to:			
Equity holders of the parent		366	(11,278)
		366	(11,278)
Profit/(Loss)/Earnings per share			
From continuing operations			
Basic	10	0.25p	(5.69p)
Diluted	10	0.25p	(5.69p)
From discontinued operations			
Basic	10	(0.08p)	0.17p
Diluted	10	(0.08p)	0.17p
From continuing and discontinued operations			
Basic	10	0.17p	(5.52p)
Diluted	10	0.17p	(5.52p)

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2012

	2012 £'000	2011 £'000
Profit/(loss) for the year	366	(11,278)
Other comprehensive (expense)/income:	-	-
Total comprehensive income/(expense) income for the year	366	(11,278)
Attributable to:		
Equity holders of the parent	366	(11,278)
	366	(11,278)

Consolidated Statement of Financial Position

31 August 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Goodwill	13	-	-
Other intangible assets	12	1	2
Property, plant and equipment	14	3	16
Investments accounted for using the equity method	15	6,238	6,234
		6,242	6,252
Current assets			
Inventories	16	3,919	3,900
Trade and other receivables	17	1,810	1,667
Cash and cash equivalents	18	409	580
		6,138	6,147
Total assets		12,380	12,399
Current liabilities			
Trade and other payables	19	(1,700)	(1,884)
Current income tax liabilities		-	(440)
Bank overdrafts and loans	20	(4,285)	(4,046)
		(5,985)	(6,370)
Net current assets/(liabilities)		153	(223)
Total liabilities		(5,985)	(6,370)
Net assets		6,395	6,029

Consolidated Statement of Financial Position *continued*

31 August 2012

	2012 £'000	2011 £'000
Equity		
Share capital	2,205	2,205
Share premium account	2,106	2,106
Treasury shares	(602)	(602)
Capital redemption reserve	61	61
Share option reserve	22	22
Retained earnings	2,603	2,237
Total equity attributable to the parent's shareholders	6,395	6,029

The financial statements were approved by the Board of Directors on 27 February 2013 and signed on its behalf by:



Desmond Khan FCCA
Director

Registration number: 4145632

Consolidated Statement of Changes in Equity

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
Balance at 1 September 2010	2,205	2,106	(602)	61	11,265	22	-	2,250	17,307
Share based payment charge	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
Realisation of merger reserve on impairment of goodwill	-	-	-	-	(11,265)	-	-	11,265	-
Transactions with owners	-	-	-	-	(11,265)	-	-	11,265	-
Loss for the financial period	-	-	-	-	-	-	-	(11,278)	(11,278)
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	(11,278)	(11,278)
Balance at 31 August 2011	2,205	2,106	(602)	61	-	22	-	2,237	6,029
Realisation of merger reserve on impairment of goodwill	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-	-	-
Profit for the financial period	-	-	-	-	-	-	-	366	366
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 31 August 2012	2,205	2,106	(602)	61	-	22	-	2,603	6,395

Consolidated Statement of Cash Flows

For the year ended 31 August 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Cash used in operations	24	74	(1,687)
Income taxes paid		(440)	(126)
Interest received		-	1
Interest paid		(40)	-
Net cash outflow from operating activities		(406)	(1,812)
Investing activities			
Proceeds on disposal of property, plant and equipment		-	-
Purchases of property, plant and equipment		-	(1)
Deferred consideration received		-	-
Purchase of investments		(4)	-
Net cash used in by investing activities		(4)	(1)
Financing activities			
New loans		239	2,107
Loan repayments		-	-
Net cash generated by/(used in) financing activities		239	2,107
Net increase/(decrease) in cash and cash equivalents		(171)	294
Cash and cash equivalents at the beginning of the year		580	286
Cash and cash equivalents at the end of the year		409	580

Notes to the Consolidated Financial Statements

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.

The accounting policies set out below have been applied to all periods presented in the consolidated 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 IFRS 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.

Basis of preparation and Going Concern

The Directors have prepared working capital forecasts for the period to 28 February 2014. The ability of the Group to continue trading as a going concern is dependent on the continuing income streams from existing and new contracts, together with the expected realisation of the Group's share of profits of £1.24 million from The Whitechapel Development.

The directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Notes to the Consolidated Financial Statements

1. Significant accounting policies *continued*

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.

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.

Any gain on a bargain purchase, is recognised as a gain in the income statement in accordance with IFRS 3.

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. The amortisation charge is included within administration expenses.

Investments in associates

The Group's investment in JV Finance Ventures Limited was 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.

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 have been adjusted where necessary to ensure consistency with the accounting policies of the Group.

1. Significant accounting policies *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant 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.

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 goodwill for internal management purposes, although this may not be larger than an operating segment.

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 the investment in JV Finance Ventures Limited, unless the Group is able to control the reversal of the temporary difference. 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.

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. Revenue is recognised 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 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 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 accrued income.

1. Significant accounting policies *continued*

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.

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.

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.

1. Significant accounting policies *continued*

Financial assets

Financial assets are considered to be loans and receivables.

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 initially 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 discounted at the original effective interest rate.

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.

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.

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

1. Significant accounting policies *continued*

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.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "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.

1. Significant accounting policies *continued*

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.

Operating profit

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

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 judgements 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.
- *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. Although the group is entitled to a share of residual profits it is not exposed to the majority of the risk and rewards of ownership. As noted on page 3 the Group is in the process of disposing of its interests in both funds as the future profitability of these developments is uncertain no revenue has been recognised.
- *Adverse market conditions affecting property investments* – due to the currently depressed market conditions, the group has been unable to dispose of its completed property developments in Bristol and Bradford detailed on page 5. It should be noted that the completed units have been rented out to generate short term income, whilst the company continues to market the units for sale. However, the rental income received has not been sufficient to allow the company to continue to meet its loan repayments. Due to this, the company's bankers, Dunbar Assets Plc, have put into effect their legal charge by way of a deed of assignment of all net rental income. Following the year end, the directors have decided to begin negotiations with Dunbar Assets Plc, with a view of releasing the properties to the bank.

1. Significant accounting policies *continued*

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 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)
- Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)

The Directors are considering the potential impact of adoption of these standards and interpretations in future periods on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements *continued*

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.

Segment information about these businesses is presented below:

2012

	Management Services £'000	Professional Services £'000	Discontinued operations £'000	Consolidated £'000
Revenue	1	2,359	(1)	2,359
Segment operating (loss)/profit	1	312	(4)	309
Unallocated corporate expenses				(848)
Operating loss				(539)
Share of profit from equity accounted investments				1,243
Finance costs				(40)
Profit before taxation and exceptional items				664
Legal costs/loss on sale of freehold				(136)
Taxation				-
Exceptional items				-
Profit for the year from continuing operations				528
Loss for the year from discontinued operations				(162)
Profit for the year				366

2. Segment information *continued*

2011

	Management Services £'000	Professional Services £'000	Discontinued operations £'000	Consolidated £'000
Revenue	68	5,962	(6)	6,024
Segment operating profit	68	734	(6)	796
Unallocated corporate expenses				(1,747)
Operating loss				(951)
Share of loss from equity accounted investments				(534)
Finance income				1
Loss before taxation and exceptional items				(1,484)
Impairment losses				(10,825)
Taxation				300
Exceptional Items				381
Loss for the year from continuing operations				(11,628)
Profit for the year from discontinued operations				350
Loss for the year				(11,278)

2. Segment information *continued*

Other information

The assets and liabilities of the management services segment is not considered to be significant to the group, therefore no separate disclosure is made.

Discontinued operations

Discontinued operations in the year ended 31 August 2012 primarily relate to winding down of FG Bradford Limited, FG Bristol Limited and Proactive Sports Management Limited, together with the run off of discontinued activities from 31 August 2011. Discontinued activities in the year ended 31 August 2011, related to the loss of control of a subsidiary, Formation Asset Management Limited and the disposal of the trade and assets of subsidiary companies that took place in 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	
	2012	2011
	£'000	£'000
United Kingdom	2,295	5,960
Rest of the World	64	64
	2,359	6,024

During the year of review companies controlled by Osprey Private Trust Company Limited as trustees of The Osprey Trust and Kennedy Private Trust Company Limited as trustees of Kennedy Family Discretionary Settlement (the shareholder) attributed 96% (2012) of the revenue, 98% (2011) within the Professional services segment.

All assets are located in the United Kingdom.

Notes to the Consolidated Financial Statements *continued*

3. Investment income and finance costs

Investment income

	2012 £'000	2011 £'000
Bank interest receivable	(40)	1

Finance costs

	2012 £'000	2011 £'000
Interest on bank loan and overdraft	-	-

4. Profit/(loss) for the year

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

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Depreciation of property, plant and equipment	7	12	6	-	13	12
Impairment charge	-	10,825	-	-	-	10,825
Cost of inventories recognised as expense	-	-	-	-	-	-
Employee costs (note 5)	511	809	-	-	511	809
Auditors' remuneration (see opposite)	26	64	-	-	26	64

Notes to the Consolidated Financial Statements *continued*

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

A more detailed analysis of auditors' remuneration is provided below:

	2012 £'000	2011 £'000
Fees payable to the Company auditor for the audit of the parent and consolidated financial statements	15	20
Other fees to auditors – the audit of the Company's subsidiaries pursuant to legislation	9	12
Tax advisory	-	14
Tax compliance	2	10
Other advisory	0	8
	26	64

5. Employee costs

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

	2012 Number	2011 Number
Management Services	0	1
Professional Services	3	9
Administration	1	5
	4	15

	2012 £'000	2011 £'000
Their aggregate remuneration comprised:		
Wages and salaries	459	727
Social security costs	52	82
Other pension costs (see note 26)	-	-
	511	809

6. Directors' remuneration, interests and transactions

Aggregate remuneration

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

	2012 £'000	2011 £'000
Emoluments	330	303
Money purchase pension contributions	-	-
	330	303

Directors' emoluments

Name of Director	Fees/basic salary £'000	2012 Total £'000	2011 Total £'000
Executive			
N. O'Carroll	169	169	172
D. Khan	161	161	162
Non-Executive			
M. Kennedy	-	-	(31)
Aggregate emoluments	330	330	303
Fees to third parties	15	15	(1)

Fees to third parties comprise amounts paid to C Green – £15,000.

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 2011 Number	At 31 August 2012 Number	Exercise price	Date from which exercisable	Expiry Date
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
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 2012 was 1.15p and the range during the year was 2.00p to 1.08p. 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.

2012	2011
£'000	£'000

-	-
---	---

Directors' interests

The Directors who held office at 31 August 2012 had the following beneficial interests in the 1p ordinary shares of the Company:

	31 August 2012 Number	31 August 2011 Number
N. O Carroll	755,316	255,316
M. Kennedy	50,000	50,000
P. Kennedy/D Kennedy*	114,893,696	114,893,696

* 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current tax	-	(300)	-	-	-	(300)
Deferred tax (note 22)	-	-	-	-	-	-
	-	(300)	-	-	-	(300)

UK corporation tax is calculated at 25% (2011: 27%) of the 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:

	2012 £'000	2011 £'000
Profit/(loss) before tax		
Continuing operations	528	(11,928)
Discontinued operations	(162)	350
	366	(11,578)
Tax at UK corporation tax rate of 25% (2011: 27%)	92	(3,126)
Tax effect of expenses/income not deductible/taxable for tax purposes	3	2,920
Effect of different tax rates	-	(94)
Utilisation of brought forward losses	(95)	-
Tax charge for the year	-	(300)

8. Exceptional items

Annual tests for impairment were carried out in the period and this has resulted in an impairment charge relating to the subsidiaries, Proactive Sports Management Limited and Formation Design and Build Limited.

	2012 £'000	2011 £'000
Impairment charge – Proactive Sports Management Limited	-	(20)
Impairment charge – Formation Design and Build Limited	-	(10,805)
Loss on sale of freehold	(10)	381
Legal costs relating to litigation	(126)	-
	(136)	(10,444)

9. Discontinued operations

Discontinued operations relate to the disposal of the various subsidiary companies as referred to in the Directors Report and note 2.

Results of discontinued operations

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

	2012 £'000	2011 £'000
Revenue	1	6
Cost of sales	3	-
Gross (loss)/profit	4	6
Administrative expenses	(485)	(45)
Operating loss from discontinued operations	(481)	(39)
Exceptional items	300	-
Finance costs	(151)	-
Investment income	170	-
Loss before taxation	(162)	(39)
Attributable tax expense	-	-
Loss for discontinued operations	(162)	(39)
Profit on disposal of discontinued operations before taxation	-	389
(Loss)/Profit attributable to discontinued operations	(162)	350

During the year, the Group had a £Nil (2011: £Nil) net cash inflow from investing activities relating to the cessation of trade of companies in the Group.

There is no income tax relating to the trade or the gain on the disposal of operations.

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

Notes to the Consolidated Financial Statements *continued*

10. Earnings per share

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

	2012 £'000	2011 £'000
Basic and diluted earnings/(loss) – continuing operations	528	(11,628)
Basic and diluted (loss)/earnings – discontinued operations	(162)	350
Basic and diluted earnings/(loss) – continuing and discontinued operations	366	(11,278)

	2012 Number of shares '000	2011 Number of shares '000
Weighted average number of shares:		
Ordinary shares in issue	220,515	220,515
Treasury shares	(16,497)	(16,497)
Basic	204,018	204,018
Dilutive effect of share options	-	-
Diluted	204,018	204,018

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 2012 and 2011 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 2010, 31 August 2011 and 31 August 2012	7	7
Amortisation		
At 1 September 2010	4	4
Charge for the year	1	1
At 1 September 2011	5	5
Charge for the year	1	1
At 31 August 2012	6	6
Net book value		
At 31 August 2012	1	1
At 31 August 2011	2	2

13. Goodwill

Cost and net book value

	£'000
At 1 September 2010	10,825
Impairment – Formation Design & Build Limited	(10,805)
Impairment – Proactive Sports Management Limited	(20)
<hr/>	
At 1 September 2011	-
	-
	-
<hr/>	
At 31 August 2012	-

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:

	2012 £'000	2011 £'000
Management Services	-	-
Professional Services	-	-
	-	-

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%.

As noted in the Chairman's Statement, Chief Executive Officer's Report and Directors' Report the Group has seen significant changes in the year. Activity in Proactive Sports Management Limited has been ceased except for the finalisation of litigation. The activity in Formation Design and Build Limited has been reduced significantly while management have addressed the Aldgate and Whitechapel developments, with no new developments in place and a focus on conserving cash until resolution on the above developments. Management's assessment of the carrying value of goodwill relating to these CGU's at the year end is considered to be £Nil.

14. Property, plant and equipment

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2010	21	267	48	336
Additions	-	1	-	1
Disposals	-	(98)	-	(98)
At 1 September 2011	21	170	48	239
Additions	-	-	-	-
Loss of control of subsidiary	-	-	-	-
At 31 August 2012	21	170	48	239
Accumulated depreciation				
At 1 September 2010	13	239	48	300
Loss of control of subsidiary	-	(89)	-	(89)
Charge for the year	4	8	-	12
At 1 September 2011	17	158	48	223
Loss of control of subsidiary	-	-	-	-
Charge for the year	4	9	-	13
At 31 August 2012	21	167	-	236
Net book value				
At 31 August 2012	-	3	-	3
At 31 August 2011	4	12	-	16

15. Investments accounted for using the equity method

	2012 £'000	2011 £'000
Investment in JV Finance Ventures Limited	6,238	6,234

In the year ending 2010, 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 Bank Plc'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. As noted in the Chief Executive report in the previous year, the Aldgate development was disposed of conditionally. Accordingly the investment in JV Finance Ventures Limited has been adjusted to the anticipated fair value of the sales proceeds less costs to sell. The fair value is based on the present value of the anticipated future cash flows discounted using the Group's weighted average interest charge.

16. Inventories

	2012 £'000	2011 £'000
Work in progress	3,919	3900

The inventory is held at the lower of cost and net realisable value. There have been no write down of inventories or amounts recognised in profit or loss during the year.

Notes to the Consolidated Financial Statements *continued*

17. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	387	687
Allowance for doubtful debts	(365)	(310)
	22	377
Income tax recoverable	-	83
Other receivables and prepayments	1,788	1,207
	1,810	1,667

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:

	2012 £'000	2011 £'000
Current	11	88
Past due but not impaired:		
0-30 days	(4)	-
30-60 days	(13)	42
60-90 days	20	-
> 90 days	8	247
Past due and impaired:		
30-60 days	-	-
60-90 days	-	-
> 90 days	365	310
	387	687

Of the trade receivables 3% (2011: 13%) are neither past due or impaired and considered to be fully recoverable.

Notes to the Consolidated Financial Statements *continued*

17. Trade and other receivables *continued*

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

	2012 £'000	2011 £'000
Balance at the beginning of the year	310	154
Amounts written off/collected	(310)	(154)
Provision created during the year	365	310
Balance at the end of the year	365	310

18. Cash and bank deposits

	2012 £'000	2011 £'000
Cash in hand and at bank	409	580

19. Trade and other payables

	2012 £'000	2011 £'000
Current:		
Trade payables	534	1,697
Other taxation and social security	-	1
Other creditors	686	76
Accruals and deferred income	480	110
	1,700	1,884

Trade creditors and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 95 days (2011: 116 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Consolidated Financial Statements *continued*

20. Bank overdrafts and loans

	2012 £'000	2011 £'000
Current:		
Bank loan - term loan facility	4,285	4,046
	4,285	4,046

The borrowings are repayable as follows:

	2012 £'000	2011 £'000
On demand or within one year	4,285	4,046
	4,285	4,046
Less: amount due for settlement within 12 months (shown under current liabilities)	(4,285)	(4,046)
Amount due for settlement after 12 months	-	-

The weighted average interest rates paid were as follows:

	2012 %	2011 %
Bank loan	4.00	4.51

The loans are secured on the developments in FG (Bradford) Limited and FG (Bristol) Limited.

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

	2012 £'000	2011 £'000
Financial assets		
Loans and receivables – other	1,810	1,207
Loans and receivables – cash and cash equivalents	409	580
	2,219	1,787
Financial liabilities		
Amortised cost	5,959	5,743

(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) Capital risk management

The Group's Capital risk management are to ensure the Group can continue as a going concern and to provide a return to shareholders. the group monitors capital on the basis of the carrying amount of equity plus loans less cash as presented on the statement of financial activities. The Group's goal in Capital risk management is to generate cash inflow over a financial year.

(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:

	2012 %	2011 %
Bank loan	4.00	4.51

At 31 August 2012, 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 £43,000 (2011: £40,000).

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.

The maximum exposure to credit risk at the year end is £8,000 (2011 – £247,000).

(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 2012

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	Greater than 5 years £'000	Total £'000
Trade and other payables	1,700	-	-	-	1,700
Bank loans	4,285	-	-	-	4,285
	5,985	-	-	-	5,985

31 August 2011

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	Greater than 5 years £'000	Total £'000
Trade and other payables	1,884	-	-	-	1,884
Bank loans	4,046	-	-	-	4,046
	5,930	-	-	-	5,930

Notes to the Consolidated Financial Statements *continued*

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 2010	-	-	-	-	-
(Charge)/credit to income	-	-	-	-	-
At 1 September 2011	-	-	-	-	-
(Charge)/credit to income	-	-	-	-	-
At 31 August 2012	-	-	-	-	-

The group has losses of £1,910,140 (2011 – £2,093,000) available to carry forward against future profits, these have not been recognised as future recoverability is uncertain.

23. Share capital

	2012 £'000	2011 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2011 – 300,000,000)	3,000	3,000
Allotted and called-up		
220,515,112 ordinary shares of 1p each (2011 – 220,515,112)	2,205	2,205
	Number	£'000
At 1 September 2011 and 31 August 2012	220,515,112	2,205

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

Treasury shares

The treasury shares represents 16,497,258 (2011: 16,497,258) ordinary shares of 1p each in the share capital of the Company.

23. Share capital *continued*

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	
				2012	2011
Unapproved share option scheme	12-Dec-03	12-Dec-06 to 11-Dec-13	8.13p	1,000,000	1,000,000
Unapproved share option scheme	15-Nov-07	15-Nov-10 to 14-Nov-17	22.75p	450,000	450,000
				1,450,000	1,450,000

Movements in share options are summarised as follows:

	2012 Number of options	2012 Weighted average exercise price pence	2011 Number of options	2011 Weighted average exercise price pence
Outstanding at the beginning of the year	1,450,000	12.66	1,450,000	12.66
Options issued during the year	-	-	-	-
Surrendered or expired during the year	-	-	-	-
Outstanding at the end of the year	1,450,000	12.66	1,450,000	12.66
Exercisable at the end of the year	1,450,000	12.66	1,450,000	12.66

The options outstanding at 31 August 2012 have a weighted average exercise price of 12.66 pence and a weighted average remaining contractual life of 2.53 years.

Notes to the Consolidated Financial Statements *continued*

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

	2012 £'000	2011 £'000
Operating loss from continuing operations	(565)	(951)
Operating (loss)/profit from discontinued operations (Note 9)	(162)	350
Depreciation of property, plant and equipment (Note 14)	13	12
Amortisation of intangible assets	1	1
Loss on sale of Fixed Assets	(9)	9
Share option charge	-	-
Exceptional items (cash element)	-	166
Operating cash flows before movements in working capital	(722)	(413)
Increase in inventories	(19)	(2,074)
Decrease increase in receivables	851	1,106
Increase in payables	(184)	(306)
Cash used in operations	74	(1,687)

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

	2012 £'000	2011 £'000
Minimum payments under operating leases recognised in income in the year	105	105

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	
	2012 £'000	2011 £'000
Group		
Within one year	95	105
In the second to fifth years inclusive	241	187
After five years	-	-
	336	292

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 £Nil (2011 – £Nil).

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:

The Tulip Trust and Kennedy Private Trust Company Limited as trustees of The Kennedy Family Discretionary Settlement 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 for companies controlled by the Osprey Private Trust Company Limited as trustees of The Osprey Trust and Kennedy Private Trust Company Limited as trustees of Kennedy Family Discretionary Settlement. Revenue from these contracts totalled £2,326,514 (2011 – £5,842,000) in the year. At 31 August 2012, the Group had debtor balances with these companies of £12,281 (2011 – £651,325).
- Formation Design & Build Limited leased premises from Columbia House Properties (No.6) Limited (a company ultimately owned by Kennedy Private Trust Company Limited as trustees of Kennedy Family Discretionary Settlement) on a five year lease from 6 September 2012. The terms of the lease include a rental of £29,700 per annum. The charge for year was £40,608 (2011: £40,390) and £Nil was owed to Columbia House Properties (No.6) Limited at 31 August 2012 (2011: £Nil).

The Group invested in JV Finance Ventures Limited in 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 the Group 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 the company are concerned.

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.

	2012 £'000	2011 £'000
Short-term employee benefits	330	303
Post employment benefits	-	-
Share-based payments	-	-
	330	303

28. Contingent liabilities and guarantees

In the year ended 31 August 2012, 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 in 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.

The Group is entitled to a share of the residual profits of the related property development and had underwritten half of the value of the loan and associated interest. The maximum liability in relation to this is £3.9 million.

The Company is happy to report that the bondholders were materially repaid in January 2012 with a small residual balance to be paid. As such the Directors are satisfied that this payment has extinguished Formation Group fully of its potential contingent liability as previously reported.

Therefore no obligation in respect of this guarantee has therefore been recognised at 31 August 2012 (2011: £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 in 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.

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

The Board is now happy to report that the loan note holders have been fully repaid with the completion of the sale of this development in January 2012 by Julius Properties Limited. This sale has now fully extinguished Formation Group Plc of its contingent liability of £11.6 million as previously reported. It is also expected that Formation Group Plc will substantially realize its investment in securing this property through JV Finance Ventures Limited.

Therefore no obligation in respect of this guarantee has therefore been recognised at 31 August 2012 (2011: £Nil).

29. Post Balance Sheet Event

Dunbar Asset Plc have been given notice in January 2013 of the Group's intention to hand back the FG Bradford and FG Bristol developments which were secured on a non recourse funding basis. These developments were carried out via wholly owned subsidiaries FG (Bradford) Limited and FG (Bristol) Limited respectively. The accounts for these companies have been incorporated in the consolidated figures on a discontinued operation basis. The expectation is that all formalities will shortly be concluded.

Independent Auditors' Report (on the Company financial statements)

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 2012 which comprise the parent 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 16, 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 and express an opinion on 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/private.cfm

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 2012 and of its profit 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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern.

The company incurred a net profit of £2,001,000 during the year ended 31 August 2012.

As explained in note 1, the ability of the Group to continue trading as a going concern is dependent on the realisation of profits due to the Group from its share in the profits of The Whitechapel Development of £1.24 million. This coupled with existing and new building contracts would in a large part ensure that the company generates enough working capital to trade until February, 2014 when the repayment of its investment in the Aldgate Development commences.

These conditions, along with the other matters disclosed in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Independent Auditors' Report (on the Company financial statements) *continued*

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 2012. That report includes an emphasis of matter.

David Grunberg BA FCA
Senior Statutory Auditor

For and on behalf of:
Grunberg & Co Limited
Statutory Auditor
Chartered Accountants
10-14 Accommodation Road
London
NW11 8ED

28 February 2013

Company Balance Sheet

31 August 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	3	1	2
Tangible assets	4	-	4
Investments	5	6,448	6,234
		6,449	6,240
Current assets			
Debtors	6	1,274	250
Cash at bank and in hand		1	-
		1,275	250
Creditors: Amounts falling due within one year	7	(947)	(1,714)
Net current assets/(liabilities)		328	(1,464)
Total assets less current liabilities		6,777	4,776
Net assets		6,777	4,776
Shareholders' funds			
Share capital	8	2,205	2,205
Share premium account	9	2,106	2,106
Treasury shares	9	(602)	(602)
Capital redemption reserve	9	61	61
Other reserves	9	22	22
Profit and loss account	9	2,985	984
Total shareholders' funds	9	6,777	4,776

The financial statements were approved by the Board of Directors on 27 February 2013 and signed on its behalf by:



Desmond Khan FCCA
Director

Notes to the Company Financial Statements

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 profit for the financial year of £2,001,000 (2011: loss of £11,155,000).

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.

Basis of preparation and Going Concern

The Directors have prepared working capital forecasts for the period to 28 February 2014. The ability of the company to continue trading as a going concern is dependent on the expected realisation of profits of £1.24 million due to the company from its share in the profits of The Whitechapel Development. This in a large part ensures that the company generates enough working capital to trade until February, 2014 when the repayment of its investment in the Aldgate Development commences.

The directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

1. Principal accounting policies

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.

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

Operating 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, 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) of the parent company. 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.

Notes to the Company Financial Statements *continued*

2. Employee costs

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

	2012 Number	2011 Number
Administration	1	5
	1	5

	2012 £'000	2011 £'000
Their aggregate remuneration comprised:		
Wages and salaries	161	131
Social security costs	20	14
	181	145

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

3. Intangible fixed assets

	Trademarks £'000
Cost	
At 1 September 2011 and 31 August 2012	7
Amortisation	
At 1 September 2011	5
Charge for the year	1
At 31 August 2012	6
Net book value	
At 31 August 2012	1
At 31 August 2011	2

4. Tangible fixed assets

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2011	21	67	54	142
At 31 August 2012	21	67	54	142
Depreciation				
At 1 September 2011	17	67	54	138
Charge for the year	4	-	-	4
At 31 August 2012	17	67	54	142
Net book value				
At 31 August 2012	-	-	-	-
At 31 August 2011	4	-	-	4

5. Investments

	2012 £'000	2011 £'000
Subsidiary undertakings	210	-
Investment in JV Finance Ventures Limited	6,238	6,234
	6,448	6,234

As noted in the Chief Executive report, before the year end, the Aldgate development was disposed of conditionally. Accordingly the investment in JV Finance Ventures Limited has been adjusted to the anticipated fair value of the sale proceeds less costs to sell. The fair value is based on the present value of the anticipated future cash flows discounted using the Group's weighted average interest charge.

5. Investments *continued*

Principal investments

The parent company and the Group have investments in the following subsidiary undertakings, all of which are wholly owned.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity
Formation Architectural Design Limited	England	Non-trading
Formation Wealth Solutions Limited	England	Non-trading
Formation Design & Build Limited	England	Property project management
Formation Construction Limited	England	Dormant
Proactive Sports Management Limited	England	Management and professional services
FG (Bristol) Limited	England	Property development and project management
FG (Bradford) Limited	England	Property development and 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 2011	33,653	6,768	40,421
Costs from Formation Design & Build Ltd		4	4
At 31 August 2012	33,653	6,772	40,425
Provision for impairment			
At 1 September 2011	33,653	534	34,187
Reversal of impairment charge	(210)	-	(210)
	33,443	534	33,977
Net book value			
At 31 August 2012	210	6,238	6,448
At 31 August 2011	-	6,234	6,234

Notes to the Company Financial Statements *continued*

6. Debtors

	2012 £'000	2011 £'000
Amount owed by group undertakings	17	-
Other debtors	-	24
Prepayments and accrued income	1,257	226
	1,274	250

7. Creditors: Amounts falling due within one year

	2012 £'000	2011 £'000
Bank loan	-	11
Trade creditors	15	80
Other creditors	573	-
Amounts owed to group undertakings	183	1,607
Other taxation and social security	15	1
Accruals and deferred income	161	15
	947	1,714

8. Share capital

	2012 £'000	2011 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2011 – 300,000,000)	3,000	3,000
Allotted and called-up		
220,515,112 ordinary shares of 1p each (2011 – 220,515,112)	2,205	2,205
		£'000
At 1 September 2011 and 31 August 2012		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	8.13p	12 Dec 2006 to 11 Dec 2013
Unapproved share option scheme	450,000	22.75p	15 Nov 2010 to 14 Nov 2017

9. Reserves

	Share capital £'000	Treasury shares £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 September 2011	2,205	(602)	2,106	61	22	984	4,776
Profit for the year	-	-	-	-	-	2,001	2,001
Transfers to P&L reserve	-	-	-	-	-	-	-
At 31 August 2012	2,205	(602)	2,106	61	22	2,985	6,777

Treasury shares

Treasury shares represent 16,497,258 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.

10. Related party transactions

During the year company charged management fees to its subsidiaries.

	Balance at year end debtor/(creditor)		Management fees	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Formation Design & Build Limited	(173)	(1,412)	70	70
Formation Architectural Design Limited	15	8	2	2
Proactive Sports Management Limited	(10)	(63)	54	30
Formation Wealth Solutions Limited	-	(144)	4	4
FG (Bristol) Limited	1	2	3	3
FG (Bristol) Limited	1	2	3	2
	(166)	(1,607)	136	111

Included within other creditors is £572,652 (2011- £nil) due to the Kennedy Private Trust Company Limited, a company which acts as a trustee of the Kennedy Family Discretionary Settlement. Interest was charged at a rate of 6% on the initial draw-down amount of £350,000, which increased to a rate of 10% when an additional £200,000 was draw-down. The loan is secured by way of a registered charge of an assignment of the net profit share due to Formation Group Plc arising from the development at 52-58 Commercial Road. The amount, and any accumulated interest is repayable in full on 31 May 2013.

11. Contingent liabilities and guarantees

In the year ended 31 August 2012, 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 in 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.

The Group is entitled to a share of the residual profits of the related property development, and had underwritten half of the value of the loan and associated interest. The maximum liability in relation to this matter was £3.9 million.

The Company is happy to report that the bondholders were materially repaid in January 2012, with a small residual balance to be paid. As such, the Directors are satisfied that this payment has extinguished Formation Group fully of its potential contingent liability as previously reported.

As such, no obligation in respect of this guarantee has therefore been recognised at 31 August 2012 (2011: £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 in 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.

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

The Board is now happy to report that the loan note holders have been fully repaid, with the completion of the sale of this development in January 2012, by Julius Properties Limited. This sale has now fully extinguished Formation Group Plc, of its contingent liability of £11.6 million as previously reported. It is also expected that Formation Group Plc will substantially recoup its investment in securing the site through JV Finance Ventures Limited.

Therefore, no obligation in respect of this guarantee has been recognised at 31 August 2012 (2011: £Nil).

Formation Group PLC

Registered number: 04145632

Auditors

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London NW11 8ED

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