

Interim Report 2013



formation
GROUP PLC



Interim Results for the Six Months ended 28 February 2013

The Group is pleased to announce its interim results for the six months ended 28 February 2013. Formation Group is now predominately a property development and project management company providing professional services to its clients within this sector.

Highlights

Revenue from continuing operations of £2.36 million (2012: £1.12m).

Operating loss from continuing operations of £0.072 million (2011: £0.480m loss).

The Group is trading in line with management's expectations and the board remains cautiously optimistic about the Group's prospects for the remainder of the year.

Cash position as at 28 February 2013 £0.139 million (31 August 2012 £0.409m).

Enquiries:
Formation Group Plc:

David Kennedy; Non-Executive Chairman/Chief Executive Officer – 020 7920 7590

NOMAD to Formation Group Plc:

Zeus Capital Limited – Ross Andrews/Andrew Jones – 0161 831 1512

Chairman's Statement

I am pleased to report the Group's results for the six months ended 28 February 2013.

Julius Properties Limited ("JPL"), as previously announced on 31 May 2012, after receipt of the deferred element of the consideration from the disposal of the mixed use development site at No 1 Commercial Street, London will be able to substantially repay the loans provided by JV Finance Ventures Limited in which Formation has a 36.88% equity interest. This shareholding is currently valued on the balance sheet at £6.24 million. The deferred consideration due to JPL is secured by property, with repayment due in equal tranches over a six month period commencing in January 2014.

The Group, as previously announced, is in the process of identifying an independent non executive chairman. Until a suitable candidate has been appointed I will continue to act as Chief Executive and interim Chairman. Shareholders will be updated in this regard in due course.

Despite the general economic pressures prevailing at this time the board remains cautiously optimistic about the Group's prospects for the future. The Group has reduced overheads and continues to source income streams. The board believes that it is necessary to focus on organic growth, ahead of that afforded through potential debt funded acquisitions at this time, but as the economy recovers the strategy will be revisited. Furthermore, Formation Design & Build Ltd has secured various Project Management contracts some of which have commenced. The board believes that the resulting income streams from these contracts will help improve the Group's trading position going forward.



David Kennedy
Non-Executive Chairman
31 May 2013



Chief Executive Officer's Report

Revenue for the period was £2.36 million from continuing operations (2012:£1.12 million) and operating losses from continuing operations were £0.072 million (2012:£0.480 million loss).

In line with the Group's current dividend policy, no interim dividend is being declared. However the Directors will review the position at the time of the Preliminary results for the year ending 31 August 2013.

Formation Design & Build Limited

The cost cutting measures taken over the past four years have ensured that the company continues to trade although at a far lower level than prior years. The company retains a core base of personnel which will enable it to grow as new developments and project management appointments occur.

Formation Construction Limited

This company was formed in early 2012 to carry out construction work and to date has traded in line with expectations.

Proactive Sports Management Limited

The Group acquired Proactive Sports Management Limited (a previously owned company), primarily to assist in the conduct of its ongoing sports related litigation cases. FG Plc can confirm all sports related litigation have been settled albeit with a considerable drain on cash resources resulting in this company being placed in Creditor's Voluntary Liquidation on the 18th April, 2013.

FG (Bristol) Limited

This development comprises 15 apartments and 3 commercial units which were originally developed for sale. Due to the recent economic crisis it was considered more appropriate to furnish the units and market for rent. FG Plc has agreed with Dunbar Assets Plc to hand back the Investment Property which was secured on a non recourse funding with all liabilities extinguished.

FG (Bradford) Limited

This development comprises 24 apartments and 1 commercial unit. The scheme was originally built for sale but the recent economic environment has persuaded the company to rent the properties instead in order to fund interest repayments. FG Plc has agreed with Dunbar Assets Plc to hand back the Investment Property which was secured on a non recourse funding with all liabilities extinguished.



Chief Executive Officer's Report *continued*

Risks and Uncertainties

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

We have stream lined the business and look forward to growing the company both organically and, in due course, through investment with the benefit of future cash receipts from JV Finance Ventures Limited.

As noted in the final results announced on 28 February 2013, 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 contracts being awarded over 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 company has adequate resources to continue in operational existence for the foreseeable future.

As announced on 13 January 2012, the Group's wholly owned subsidiary, Formation Design and Build Limited, entered into a loan agreement with the Kennedy Family Discretionary Settlement for £350,000. Due to recent net cash outflows and the reduced trading levels of the Group, Formation Design and Build Limited, has entered into a new loan agreement (the "New Loan") with the Kennedy Family Discretionary Settlement (the "Lender") for the purposes of additional working capital. Under the terms of the New Loan, an additional £200,000 will be drawn down and the original loan of £350,000 plus outstanding accrued interest will be rolled into the New Loan agreement. The New Loan, totalling £550,000 plus accrued interest, is repayable within 12 months and interest is payable on the loan at a rate of 10 per cent. per annum. As security for the loan, Formation has granted the Lender a registered charge over the net profit share due to Formation arising from the residential and commercial development at 52-58 Commercial Road, London E1 1LP.

Under the AIM Rules, the New Loan constitutes a related party transaction given the Lender's relationship with David Kennedy who, together with certain of his related parties, holds a majority shareholding in Formation. In accordance with the AIM Rules, the directors independent to the transaction are 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, that the terms of the transaction are fair and reasonable insofar as shareholders of Formation are concerned.

The board continues to closely monitor and manage the working capital position of the Group.



Outlook

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

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

- (i) Funds to be obtained over coming year due to our participation in JV Finance Ventures Limited; and
- (ii) Limited future construction and project management workload including jobs started. The board believes the resulting income streams could materially improve the Group's trading position going forward.

David Kennedy

Chief Executive Officer and Interim Chairman

31 May 2013

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

Consolidated Income Statement

For the six months ended 28 February 2013

| | Note | 6 months ended 28 Feb. 2013 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 |
|---|------|--|--|--|
| Continuing operations | | | | |
| Revenue | 2 | 2,359 | 1,119 | 2,359 |
| Cost of sales | | (2,055) | (1,067) | (2,050) |
| Gross profit | | 304 | 52 | 309 |
| Administrative expenses | | (376) | (532) | (848) |
| Operating loss from continuing operations | 2 | (72) | (480) | (539) |
| Share of profit from joint venture development | | - | - | 1,243 |
| Finance costs | | (31) | (1) | (40) |
| Loss before taxation and exceptional items | | (103) | (481) | 664 |
| Exceptional Items | 7 | (0) | (10) | (136) |
| Loss before taxation | | (103) | (491) | 528 |
| Taxation | 4 | - | - | - |
| Loss for the financial period from continuing operations | | (103) | (491) | 528 |
| Discontinued operations | | | | |
| (Loss)/profit for the financial period from discontinued operations | 3 | (64) | (46) | (162) |
| Loss for the financial period | | (167) | (537) | 366 |
| Attributable to: | | | | |
| Owners of parent | | (167) | (537) | 366 |
| | | (167) | (537) | 366 |
| Earnings per share | | | | |
| From continuing operations | | | | |
| Basic | 5 | (0.05p) | (0.24p) | 0.25p |
| Diluted | 5 | (0.05p) | (0.24p) | 0.25p |
| From discontinued operations | | | | |
| Basic | 5 | (0.03p) | (0.02p) | (0.08p) |
| Diluted | 5 | (0.03p) | (0.02p) | (0.08p) |
| From continuing and discontinued operations | | | | |
| Basic | 5 | (0.08p) | (0.26p) | 0.17p |
| Diluted | 5 | (0.08p) | (0.26p) | 0.17p |

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

Consolidated Statement of Financial Position

As at 28 February 2013



| | 28 Feb. 2013 (Unaudited) £'000 | 29 Feb. 2012 (Unaudited) £'000 | 31 Aug. 2012 (Audited) £'000 |
|---|--------------------------------------|--------------------------------------|------------------------------------|
| Non-current assets | | | |
| Goodwill | - | - | - |
| Other intangible assets | 1 | 2 | 1 |
| Property, plant and equipment | 3 | 47 | 3 |
| Investments accounted for using the equity method | 6,238 | 6,234 | 6,238 |
| | 6,242 | 6,283 | 6,242 |
| Current assets | | | |
| Inventories | 3,919 | 4,008 | 3,919 |
| Trade and other receivables | 1,243 | 302 | 1,810 |
| Cash and cash equivalents | 139 | 78 | 409 |
| | 5,301 | 4,388 | 6,138 |
| Total assets | 11,543 | 10,671 | 12,380 |
| Current liabilities | | | |
| Trade and other payables | (1,019) | (910) | (1,700) |
| Current income tax liabilities | - | - | - |
| Bank overdrafts and loan | (4,297) | (4,269) | (4,285) |
| | (5,316) | (5,179) | (5,985) |
| Net current liabilities | (15) | (791) | 153 |
| Total liabilities | (5,316) | (5,179) | (5,985) |
| Net assets | 6,227 | 5,492 | 6,395 |
| Equity | | | |
| Share capital | 2,205 | 2,205 | 2,205 |
| Share premium account | 2,106 | 2,106 | 2,106 |
| Treasury shares | (602) | (602) | (602) |
| Capital redemption reserve | 61 | 61 | 61 |
| Merger reserve | - | - | - |
| Share option reserve | 22 | 22 | 22 |
| Retained earnings | 2,435 | 1,700 | 2,603 |
| Total equity attributable to the owners of the parent | 6,227 | 5,492 | 6,395 |
| Total equity | 6,227 | 5,492 | 6,395 |

Consolidated Statement of Changes in Equity

For the six months ended 28 February 2013

| | 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 2011 | 2,205 | 2,106 | (602) | 61 | - | 22 | - | 2,237 | 6,029 |
| Share based payment charge | - | - | - | - | - | - | - | - | - |
| Transactions with owners | - | - | - | - | - | - | - | - | - |
| Loss for the financial period | - | - | - | - | - | - | - | (537) | (537) |
| Other comprehensive income Exchange differences on translating foreign operations | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - | - | - | - | - | - |
| Balance at 29 February 2012 | 2,205 | 2,106 | (602) | 61 | - | 22 | - | 1,700 | 5,492 |
| Transfer to retained earnings | - | - | - | - | - | - | - | - | - |
| Transactions with owners | - | - | - | - | - | - | - | - | - |
| Profit for the financial period | - | - | - | - | - | - | - | 903 | 903 |
| Realisation of merger reserve on impairment of goodwill | - | - | - | - | - | - | - | - | - |
| Other comprehensive income Exchange differences on translating foreign operations | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - | - | - | - | - | - |
| Balance at 31 August 2012 | 2,205 | 2,106 | (602) | 61 | - | 22 | - | 2,603 | 6,395 |
| Transactions with owners | - | - | - | - | - | - | - | - | - |
| Loss for the financial period | - | - | - | - | - | - | - | (167) | (167) |
| Other comprehensive income | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - | - | - | - | - | - |
| Balance at 28 February 2013 | 2,205 | 2,106 | (602) | 61 | - | 22 | - | 2,436 | 6,227 |

Consolidated Statement of Cashflows

For the six months ended 28 February 2013



| | Note | 6 months ended 28 Feb. 2013 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 |
|---|------|--|--|--|
| Operating activities | | | | |
| Cash generated by operations | 6 | (249) | (238) | 74 |
| Income taxes paid | | - | (440) | (440) |
| Interest paid | | (31) | (1) | (40) |
| Net cash outflow from operating activities | | (280) | (679) | (406) |
| Investing activities | | | | |
| Interest received | | - | - | - |
| Proceeds on disposal of property, plant and equipment | | - | - | - |
| Purchases of property, plant and equipment | | (2) | (46) | - |
| Deferred consideration paid | | - | - | - |
| Purchase of Investments | | - | - | (4) |
| Net cash used in investing activities | | (2) | (46) | (4) |
| Financing activities | | | | |
| New loans | | 12 | 223 | 239 |
| Loan repayments | | - | - | - |
| Net cash generated/(used in) by financing activities | | 12 | 223 | 239 |
| Net increase/(decrease) in cash and cash equivalents | | (270) | (502) | (171) |
| Cash and cash equivalents at the beginning of the period | | 409 | 580 | 580 |
| Effect of foreign exchange rate changes | | - | - | - |
| Cash and cash equivalents at end of the period | | 139 | 78 | 409 |

Notes to the Interim Information

For the six months ended 28 February 2013

1. Basis of preparation

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The group's statutory financial statements for the year ended 31 August 2012, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and on the same basis and using the same accounting policies as used in the financial statements for the year ended 31 August 2012. The interim financial statements have not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

2. Segment information

| | 6 months ended 28 Feb. 2013 (Unaudited) Profit from continuing operations £'000 | Revenue £'000 | 6 months ended 29 Feb. 2012 (Unaudited) Profit from continuing operations £'000 | Revenue £'000 | Year ended 31 Aug. 2012 (Audited) Profit from continuing operations £'000 |
|---|---|------------------|---|------------------|---|
| By class of business: | | | | | |
| Management services | - | - | - | - | - |
| Professional services | 2,359 | 304 | 1,119 | 52 | 2,359 |
| | <u>2,359</u> | <u>304</u> | <u>1,119</u> | <u>52</u> | <u>2,359</u> |
| | | <u>(376)</u> | | <u>(532)</u> | <u>(848)</u> |
| Unallocated corporate expenses | | <u>(72)</u> | | <u>(480)</u> | <u>(539)</u> |
| Operating loss from continuing operations | | | | | |



3. Discontinued operations

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

| | 6 months ended 28 Feb. 2013 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 |
|---|--|--|--|
| Loss discontinued operations | (64) | (46) | (162) |
| Attributable tax expense | - | - | - |
| Loss from discontinued operations | (64) | (46) | (162) |
| Loss on disposal of discontinued operations | - | - | - |
| Loss attributable to discontinued operations | (64) | (46) | (162) |

4. Taxation

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

5. Earnings per share

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

| | 6 months ended 28 Feb. 2013 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 |
|---|--|--|--|
| Profit for the period: | | | |
| Basic and diluted earnings – continuing operations | (103) | (491) | 528 |
| Basic and diluted earnings – discontinued operations | (64) | (46) | (162) |
| Basic and diluted earnings – continuing and discontinued operations | (167) | (537) | 366 |
| | Number of shares '000 | Number of shares '000 | Number of shares '000 |
| Weighted average number of shares: | | | |
| Basic | 204,018 | 204,018 | 204,018 |
| Diluted | 204,018 | 204,018 | 204,018 |

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

| | 6 months ended 28 Feb. 2013 (Unaudited) £'000 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 (Audited) £'000 |
|--|--|--|--|
| Operating loss for the year from continuing operations | (72) | (480) | (565) |
| Operating (loss)/profit from disposal of discontinued operations | (64) | (46) | (162) |
| Amortisation of intangible assets | - | - | 1 |
| Loss on sale of fixed assets | - | - | (9) |
| Taxation | - | - | - |
| Depreciation of property, plant and equipment | 1 | 5 | 13 |
| Exceptional items (cash element) | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Operating cash flows before movements in working capital | (135) | (521) | (722) |
| Increase in inventories | - | (108) | (19) |
| Decrease in receivables | 567 | 1,365 | 851 |
| (Decrease) in payables | (681) | (974) | (184) |
| | <hr/> | <hr/> | <hr/> |
| Cash used in by operations | (249) | (238) | 74 |
| | <hr/> | <hr/> | <hr/> |

Notes to the Interim Information

For the six months ended 28 February 2013

7. Exceptional Items

| | 6 months ended 28 Feb. 2013 (Unaudited) £'000 | 6 months ended 29 Feb. 2012 (Unaudited) £'000 | Year ended 31 Aug. 2012 (Audited) £'000 |
|---|--|--|--|
| Impairment charge - Proactive Sports Management Limited | - | - | - |
| Impairment charge - Formation Design & Build Limited | - | - | - |
| Litigation income | - | - | - |
| Loss on sale of freehold | (0) | (10) | (10) |
| Legal costs relating to litigation | - | - | (126) |
| | <hr/> | <hr/> | <hr/> |
| | (0) | (10) | (136) |
| | <hr/> | <hr/> | <hr/> |

Formation Group PLC

Registered number: 04145632

Auditors

Grunberg & Co
10-14 Accomodation Road
London NW11 8ED

Solicitors

DLA
101 Barbirolli Square
Manchester M2 3DL

Registrars

Equiniti
The Causeway, Worthing
West Sussex BN99 6DA



formation group plc
Oakwood House, 414 – 422 Hackney Road, London E2
t:+44 (0)207 920 7590 f:+44 (0)207 739 7682

www.formationgroupplc.com