formation™
Group PLC

annual report and accounts 2007

formation™
Group PLC

FORMATION PROVIDES A RANGE OF PROFESSIONAL SERVICES TO HIGH NET WORTH INDIVIDUALS AND ORGANISATIONS WITHIN THE SPORTS, ENTERTAINMENT AND PROPERTY SECTORS.




formation™ Group PLC

BUSINESS HIGHLIGHTS

Acquisition on 21 June 2007 of Columbia Design & Build Limited (now renamed Formation Design & Build Limited) for £14.6 million forming the Group's Property Development & Investment division

Acquisition on 31 August 2007 of accountancy practice, O J Kilkenny & Co Limited, for a total consideration of approximately £6 million creates a complementary new offering within our Professional Services division

10% equity stake acquired in Columbia Formation Group (Ireland) Limited for £4.2 million – re-developing two prime sites in Dublin, with combined land value of €235 million

Investment adviser, raising approx £25 million from Formation's wealth management clients, for two property investment funds (The Whitechapel Property Fund Limited and The Aldgate East Property Company Limited)

Achieved the FSA status of 'directly authorised' for wealth management business, Kingsbridge

Formation Group PLC

Annual report and financial statements
for the year ended 31 August 2007

Registered number: 4145632

FINANCIAL HIGHLIGHTS

TOTAL PROFIT BEFORE TAX* of **£6.3 million**

(2006: £0.9 million) – includes exceptional profit from the disposal of the Sports Marketing division in October 2006.

TOTAL BASIC EARNINGS PER SHARE increased to **4.02p**

(2006: 0.46p).

NET FUNDS of **£3.6 million**

(2006: £2.1 million) at the end of the year.

NET FUNDS of **£4.0 million**

as at 31 October 2007.

COMMITTED FUTURE GROSS PROFIT

at year end of **£12.9 million** *(2006: £2.8 million)*

– of which £6 million is expected to be recognised in the financial year ending 31 August 2008.

PROPOSED DIVIDEND INCREASE of **10%** - 0.115p per share

(2006: 0.105p).

**sum of profit before taxation from continuing operations of £1.4 million (2006: £0.2 million), profit before taxation from discontinued operations of £0.3 million (2006: £1.0 million) and profit on disposal of discontinued operations of £4.6 million (2006: loss of £0.3 million).*

ANNUAL REPORT AND ACCOUNTS 2007

CHAIRMAN'S STATEMENT

By all measures, the Group has delivered substantial growth, supported by a strong balance sheet. *John Lawrence MBE – Chairman.*

The financial year ended 31 August 2007 has been an excellent year for Formation. Total profit before tax rose to £6.3 million with profits from continuing operations of £1.4 million, exceeding market expectation by more than 10%. By all measures, the Group has delivered substantial growth, supported by a strong balance sheet.

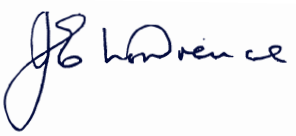
The recent acquisitions are in line with the previously stated strategic development of the Group. Whilst we have yet to see the full effect of these two acquisitions in financial terms, it is clear in our opinion that these businesses add scale and substance to our client proposition and will be material contributors to the Group's operations going forward. The two divisions of the Group complement each other with our high net worth Professional Services clients benefiting from the investment opportunities flowing from our Property Development & Investment business.

THE BOARD AND STAFF

I am delighted to welcome Noel O'Carroll to the board. Noel joined as Director of our Property Development & Investment division following the acquisition of Formation Design & Build Limited. I am also delighted to formally welcome Mike Wallwork as Group Communications Director and all the staff within the two businesses we have acquired this year. Every business is dependent upon the skill, dedication and enthusiasm of its staff. Formation has staff who possess these attributes in abundance and I would like to thank them, on behalf of the board, for their continued effort and contribution. Their hard work is very much appreciated, understood, valued and intrinsic to our continued growth and success.

PROSPECTS

Looking forward, we see many opportunities to further enhance the on-going businesses both from an organic and selective acquisition standpoint. We have a dynamic business which is constantly striving to develop services for our clients and enhance returns for our shareholders.



John Lawrence MBE – Non-Executive Chairman
15 November 2007

JOHN LAWRENCE MBE
Non-Executive Chairman

NEIL RODFORD
Chief Executive Officer

MARK PAGE
Finance Director

NOEL O'CARROLL
Director of Property Development & Investments

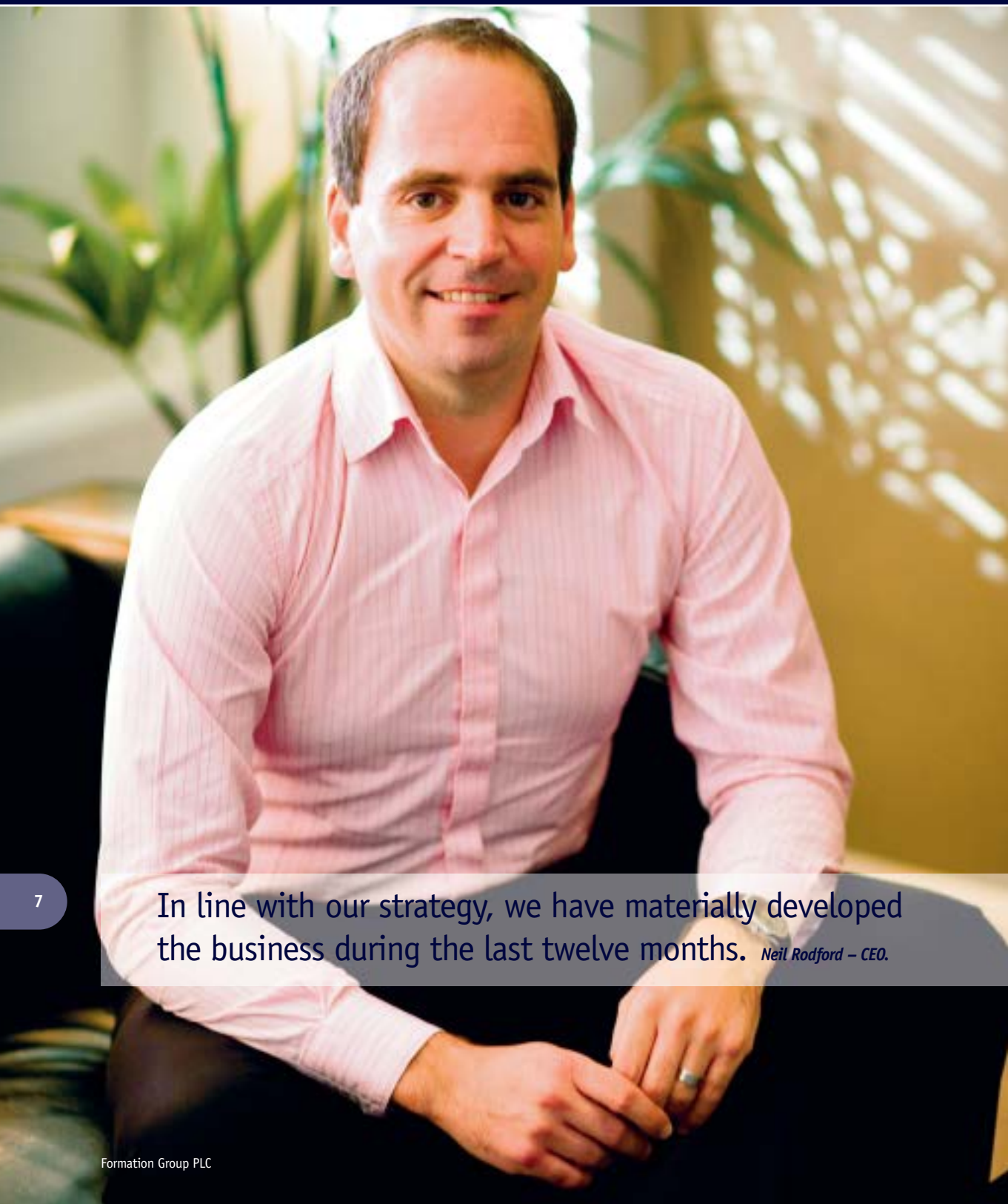
IAN BATTERSBY
Director of Wealth Management

MIKE WALLWORK
Company Secretary/
Communications Director

MICHAEL KENNEDY
Non-Executive Director

ALEC CRAIG
Non-Executive Director

CHIEF EXECUTIVE OFFICER'S REPORT



In line with our strategy, we have materially developed the business during the last twelve months. *Neil Rodford – CEO.*

INTRODUCTION

In line with our previously stated strategy, we have materially developed the business during the last twelve months, with a major disposal and two acquisitions. As a result, the profile of Formation has changed significantly, with the Group firmly focused on providing professional services to high net worth individuals and organisations within the sports, entertainment and property sectors.

The disposal, in late October 2006, of the Sports Marketing division, which accounted for a material part of the Group's turnover in previous years, was the first step, and provided the Group with funds to develop new and existing businesses.

The acquisition of Columbia Design & Build Limited, now renamed Formation Design & Build ("FD&B"), the property development management business, followed in June 2007. FD&B is a key business and its acquisition was in line with the board's strategy of creating a Property Development & Investment division and developing the Group's bespoke property investment and wealth management activities.

In June 2007, we acquired a 10% equity stake in Columbia Formation Group (Ireland) Limited ("CFGIL"), the holding company for two major property developments in Dublin. The combined land value of the two sites owned by CFGIL has recently been independently valued at over €235 million.

Our second acquisition, which took place at the end of August, was of O J Kilkenny & Co Limited ("OJK"), an accountancy practice which specialises in the entertainment and sports sectors. This acquisition further strengthens our activities within our Professional Services division.

RESULTS

This financial period has produced another strong performance for the Group. For the year ended 31 August 2007, Group revenue from continuing operations was £11.1 million (2006: £6.8 million). Profit before taxation from continuing operations was £1.4 million, (2006: £0.2 million). The Group made a profit from the disposal of the Sports Marketing division of £4.6 million and recorded £0.3 million of profit before tax prior to its disposal. The Group therefore generated total profits before taxation of £6.3 million from both continuing and discontinued activities, compared to £0.9 million for 2006.

Basic earnings per share from continuing operations increased by over 400% to 0.66p (2006: 0.13p) whilst basic earnings per share from continuing and discontinued operations, was 4.02p (2006: 0.46p).

At 31 August 2007, the Group had committed future gross profit from current contracts of £12.9 million (2006: £2.8 million). £6.0 million is expected to be recognised in the financial year ending 31 August 2008. At 31 August 2007, Group net funds stood at £3.6 million (2006: £2.1 million) with a net cash position of £4.0 million as at 31 October 2007.

It is very satisfying and testimony to the hard work and effort of the whole Formation team to be able to produce such a positive result. Set in the context of such an evolutionary year, this is even more pleasing.

The division's increased contracted income gives us stronger visibility of predictable earnings.

DIVIDEND

The Directors are recommending a final dividend payment for the financial year of 0.115p per share (2006: 0.105p) an increase of 10% per share. Subject to shareholder approval at the Annual General Meeting on 17 December 2007, this will be paid on 20 December 2007 to shareholders on the register at the close of business on 30 November 2007.

REVIEW OF DIVISIONS

Formation comprises two divisions, a Professional Services division and a Property Development & Investment division. A review of trading within each division is set out below.

PROFESSIONAL SERVICES DIVISION

OVERVIEW

Clients of our Professional Services division typically have high levels of disposable income and require bespoke professional advice. This division, which specialises in advising individuals and organisations within the sports and entertainment sectors, provides a full range of professional services, encompassing accountancy, corporate finance, representation and wealth management.

During the year under review, the division generated revenue of £7.5m (2006: £7.4m). Operating profit (before deduction of central overhead costs) increased by 20% to £1.6m (2006: £1.3m).

We are pleased with the progress we have made in developing this division over the year. The acquisition of OJK on 31 August, has added accountancy and tax services as well as a complementary client base from the entertainment sector.

I am also pleased to highlight the improvement in the division's contracted income. This gives us stronger visibility of predictable earnings as we look forward, which enhances our financial position.

We firmly believe that there are good opportunities to add scale and reach to our activities within this division. I look forward to reporting on the continued success of this division going forward.

ACCOUNTANCY

Following the acquisition of 90% of OJK, completed on 31 August 2007, we are now able to provide clients with a range of accountancy and tax advisory services. Established over 20 years ago, the business specialises in the sports and entertainment sectors and therefore the strategic fit is compelling. We anticipate considerable benefits from this acquisition.

Since the acquisition of OJK was concluded on the last day of the financial year, it has understandably made no contribution to the year ended 31 August 2007.

CORPORATE FINANCE

Formation Sports Capital Limited provides specialist corporate finance and broking services to sport and media companies.

Formation Sports Capital performed strongly over the year, completing a number of sports finance deals. Our profile and reputation in the sports and media finance arena is increasing and we continue to cultivate relationships with football club and rights holders both in the UK and Europe.

During the year, we commissioned a detailed appraisal of the business and of new business opportunities. We are now in the process of refining our business model and I look forward to reporting on developments.

Formation Group PLC headquarters.

Our profile and reputation in the sports and media finance arena is increasing.

REPRESENTATION SERVICES

Our representation services are provided by Proactive Sports Management (UK and USA) who offer management services and career advice to professional athletes, predominantly footballers, and entertainers.

It is acknowledged that the football marketplace is becoming more competitive with an increasing number of top-flight players joining the Premiership from continental Europe, South America and Africa. However, our Representation businesses performed well, delivering a consistent result in this increasingly competitive environment. Over the year, we completed 47 contract or transfer negotiations (2006: 60 contract or transfer negotiations including those agreed by our Scandinavian representation business, which we sold in July 2006).

I am also pleased to report that since the year end, we have formed a Rugby representation service and we are looking to strengthen our representation services further both in the UK and USA.

The Premier League enquiry undertaken by Lord Stevens concluded, with no recourse to our domestically licensed agents. Subsequent to this report being published the English Football Association has sought to introduce new regulations in order to provide and police increased transparency to the industry for the benefit of all stakeholders. We welcome these initiatives. However, any changes in regulation should be appropriate and focused on the needs of the industry. As a board member of the newly formed Association of Football Agents we will continue to use this forum to lobby and present our views in a constructive and appropriate manner.

WEALTH MANAGEMENT

Kingsbridge Asset Management Limited ("Kingsbridge") provides our wealth management services.

It has been an important year for Kingsbridge. Following a thorough review of the business, we have refined our offering, completed a re-branding exercise and invested in IT in order to streamline and enhance both our operational and sales processes. We believe the benefits are now evident for our consultants and back office staff as well as our clients.

I am also pleased to highlight the fact that Kingsbridge achieved the accreditation of a "directly authorised" business from the Financial Services Authority during the period.

Proactive Sports Management headquarters.

Formation Design & Build Whitechapel development.

The division made a 10 week revenue contribution of £3.7m.

PROPERTY DEVELOPMENT & INVESTMENT DIVISION

OVERVIEW

Our Property Development & Investment division is a new division, formed following the acquisition of Formation Design & Build Limited ("FD&B"), the property development company on 21 June 2007. With FD&B, we now have the ability to source and develop property projects and to originate bespoke investment products. The consideration for the acquisition of FD&B was by way of the issue of 70,588,235 ordinary shares in Formation, which has resulted in the David Kennedy Family Trust (the previous ultimate owners of FD&B) becoming the Group's major shareholder with a 53% shareholding. David Kennedy (a beneficiary of this trust) is a successful property developer, with whom we have worked in the past and we have in David a very knowledgeable, energetic and committed shareholder who will be an integral part of our future.

The division made a limited 10 week contribution to the Group's results in the period, adding revenues of £3.7 million and an operating profit of £0.4 million, in line with our projections.

Established in 1997 and based in London, FD&B manages residential or mixed use property development projects. Its senior management team are qualified in a range of disciplines including quantity surveying, construction and civil engineering and construction management. In addition, FD&B has developed numerous contacts at sub-contractor level, which it can call upon. The business is therefore able to oversee all stages of the development process.

Historically, FD&B has project managed two or three large developments (with construction values each in excess of £20 million) and three smaller projects.

FD&B provides the Group with the ability to source, evaluate, design and develop bespoke property projects. With FD&B as part of the Group, we will be able to offer existing and future clients an opportunity to invest (at an early stage) in the development projects both identified and managed by FD&B through bespoke investment products advised on by Formation.

Currently, FD&B has three major management contracts for property development projects in place. These are at:

(i) 52 – 58 Commercial Road, London
(ii) 1 Commercial Street/111-120 Whitechapel High Street, London
(iii) Clancy Quay, Dublin

The total construction value of these three developments exceeds €315 million.

INVESTMENTS

On 29 June 2007, we made a strategic 10% equity investment in Columbia Formation Group (Ireland) Limited ("CFGIL"), a company set up to undertake the re-development of the two sites in Dublin, Ireland; Clancy Quay, a 14.5 acre site beside Heuston Station in Dublin's city centre, and a site at Davitt Road, situated approximately two miles outside the city centre.

Co-investors in CFGIL are Bank of Scotland (Ireland) Limited, with a 20% stake and Impala Holdings Limited (a company wholly owned by the David Kennedy Family Trust) which holds a 70% stake in CFGIL.

It will take time to build out these schemes and realise the resultant revenue stream. However, our 10% equity holding adds assets to the Group's balance sheet and, importantly, demonstrates the Group's progress when considering our two strategic partners in this company.

We have also acted as Investment Adviser to two bespoke property funds, raising approximately £25 million of risk capital from the Group's wealth management client base. These two funds, The Aldgate East Property Company Limited and The Whitechapel Property Fund Limited support the two London based developments at 52 – 58 Commercial Road, London and 1 Commercial Street/111-120 Whitechapel High Street, London.

We view the next phase of the Group's progress with a great deal of excitement and optimism.

CHARITABLE CAUSES

The Group takes its corporate and social responsibilities seriously and we have an established charity committee, representative of the whole Group, which devises a number of fund raising initiatives. For the coming year we have chosen MedEquip4Kids, a provider of specialist healthcare equipment for babies and young children as the beneficiary of these initiatives. Our objective is to raise £30,000 for MedEquip4Kids (www.medequip4kids.org.uk) by the end of August 2008.

RISKS AND UNCERTAINTIES

The Group's challenges centre upon four main areas:

The sustainability of the UK and European residential and commercial property markets.
Given the macro economic environment and recent 'credit crunch' involving global institutions, this area of risk needs to be continually assessed and managed and we will continue with our prudent approach to seek independent expert advice before making commitments that incur potential liabilities in the property sector. We have previously disclosed contingent liabilities within the two property funds we have launched this year; Whitechapel and Aldgate East. In the case of Whitechapel, we have already substantially reduced this risk following off plan bulk purchases of the units contained in the development. Aldgate East is in the very early stages of the build programme and is not due for completion until 2010/11.

The Group having a single majority shareholder.
We firmly believe that David Kennedy's involvement with the Group is for the long term, and his tremendous support of our initiatives is testament to this view. However, we also acknowledge that a high percentage of the Group's share capital within the control of a single party is not without some degree of risk.

The Group's ability to recruit new clients within parts of its Professional Services division.
Whilst enhanced TV rights income deals should, in our opinion, underpin player salaries in the short to medium term, the influx of foreign players into the English Premier League has meant a reduction in home grown talent breaking into the top tiers of British football. Understandably foreign players have their own management infrastructures.

The final area of risk affects many businesses;

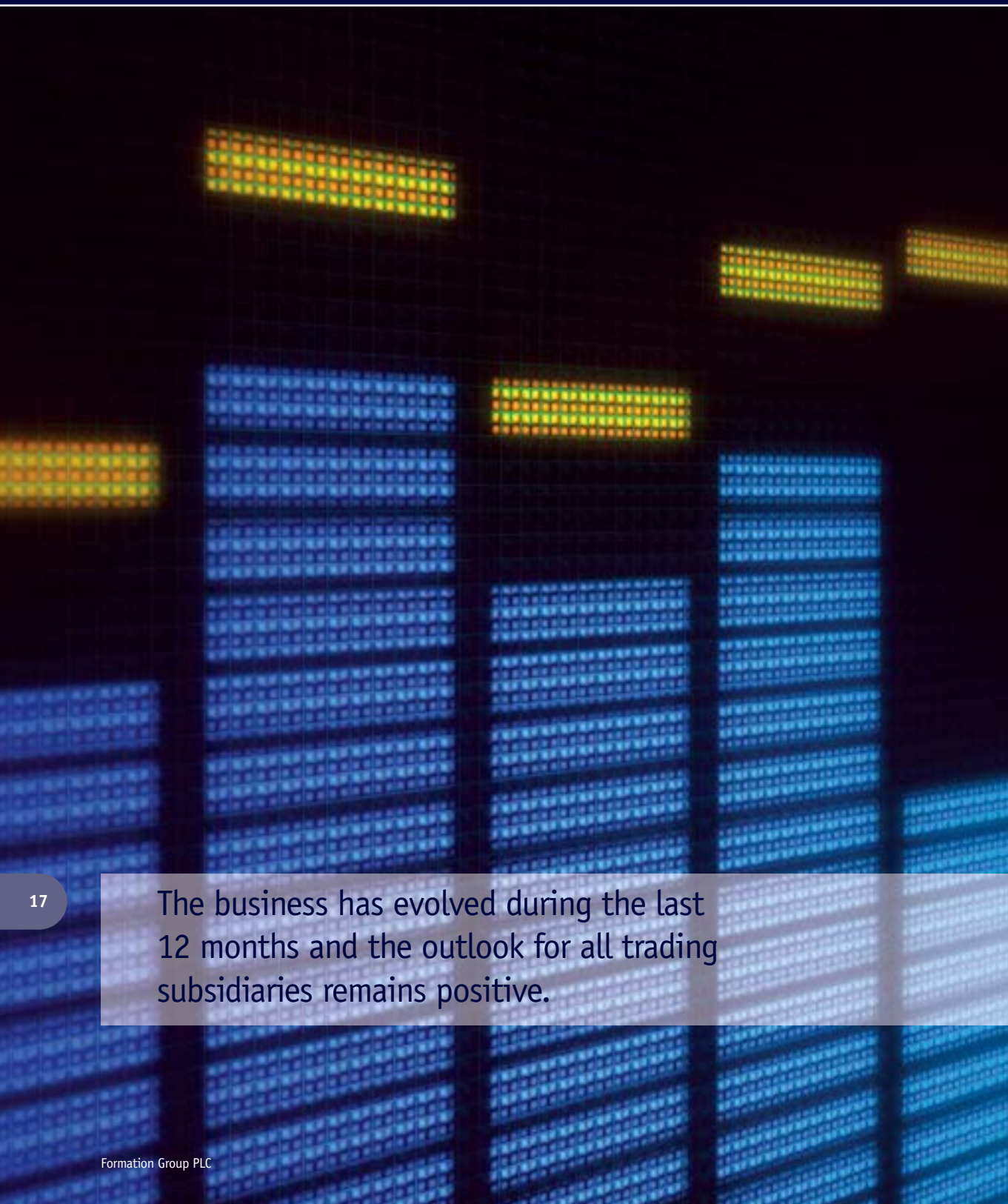
The ability to attract and retain people of the right calibre.
We are fortunate within Formation to have many first class, highly talented people. The challenge as ever is to continue to motivate these people, acknowledge their achievements and provide a workplace and cultural environment where they can excel and develop.

OUTLOOK

The business has evolved during the last 12 months and the outlook for all trading subsidiaries remains positive. We have made tactical acquisitions which we believe on the one hand underpin our professional service offering and on the other, provides an introduction into the property development market. Whilst the property market is not without its risk, we continue to have good visibility of contracted income across all business areas. We will continue to concentrate on fully integrating the businesses we have acquired and, where appropriate, harmonise our Professional Services proposition for the benefit of our clients. At the same time we will look to add scale to our operation through a mixture of organic growth and, if appropriate, further selective acquisitions.

We view the next phase of the Group's progress with a great deal of excitement and optimism. We have a strong senior management team in place and a committed, enthused, skilled and professional team of employees to help achieve our objectives.

NEIL RODFORD – Chief Executive



The business has evolved during the last 12 months and the outlook for all trading subsidiaries remains positive.

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditors' reports, for the year ended 31 August 2007.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group comprise the provision of a range of professional services tailored to high net worth individuals and organisations within the sports, entertainment and property sectors.

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.

On 31 October 2006, the Company disposed of its Sports Marketing division. Details of this disposal are contained in note 26 to the consolidated financial statements.

On 21 June 2007, Formation Design & Build Limited, a provider of project management services to property developers, was acquired by the Company by the issue of 70,588,235 ordinary shares.

On 31 August 2007, the Company acquired O.J. Kilkenny & Co. Limited, an accountancy practice based in London. Details of these acquisitions are contained in note 25 to the consolidated financial statements.

On 29 June 2007, the Company acquired 6,100 ordinary shares in Columbia Formation Group (Ireland) Limited ("CFGIL"), representing a 10% stake in CFGIL. On that date, the Company issued 8,823,529 shares in the Company to the David Kennedy Family Trust.

A detailed review of the business of the Company and its subsidiary undertakings, including discussion of the principal risks and uncertainties facing the Group, and likely future developments is contained in the Chief Executive's report.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 August 2007 are set out on pages 32 to 77. The Group's profit for the year after taxation was £5,683,000 (2006 – £543,000).

The Directors recommend the payment of a final dividend of 0.115 pence per share (2006 - 0.105 pence). No interim dividend was declared this year (2006 – £Nil). Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 20 December 2007 to shareholders on the register at 30 November 2007.

DIRECTORS

The Directors who served during the year were as follows:

J. E. Lawrence	Non-Executive Chairman
I. A. Craig	Non-Executive Director
M. Kennedy	Non-Executive Director
L. A. Turnbull	Non-Executive Director (resigned 29 May 2007)
N. Rodford	Chief Executive
M. Page	Finance Director
I. Battersby	(appointed 24 October 2006)
N. O'Carroll	(appointed 21 June 2007)
D. McKee	(resigned 24 October 2006)
J. Foxcroft	(resigned 31 October 2006)

N. O'Carroll having been appointed as a Director since the last Annual General Meeting submits himself for election at the next Annual General Meeting.

M. Kennedy and N. Rodford retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

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 2007 were equivalent to 113 days' (2006 – 90 days') purchases, based on the average daily amount invoiced by suppliers during the year.

SUBSTANTIAL SHAREHOLDINGS

On 13 November 2007 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

Name of holder	Beneficial holder	Number	Held (%)
Fitel Nominees Limited	Balchan Management Limited (in its capacity as trustee of the David Kennedy Family Trust)	29,612,813	14.4
D. Kennedy	Balchan Management Limited (in its capacity as trustee of the David Kennedy Family Trust)	8,823,529	4.3
L. D. Yates		11,596,667	5.6
Strand Nominees Limited	P. Stretford	9,856,000	4.8
Streetwise Limited	Balchan Management Limited (in its capacity as trustee of the David Kennedy Family Trust)	70,588,235	34.3
K. B. Moran		11,518,916	5.6

ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolution on 19 December 2006, the Company purchased 3,511,000 ordinary shares with a nominal value of 1p, and representing 1.7% of the Company's called up ordinary share capital for consideration of £751,000. The reason for the purchase was to enhance earnings per share. At the end of the year, the Directors had authority, under the shareholders' resolution of 19 December 2006, to purchase through the market 22,061,239 of the Company's ordinary shares at a maximum price which may be paid for a share equal to not more than 105 per cent. of the average of the last price for that share for the preceding five business days. This authority expires on the earlier of the next Annual General Meeting and 18 December 2007.

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 2007, a total of 11 employees had options granted under the plans. The Group also operates a Group-wide bonus scheme based on the achievement of the Group's budgeted operating profit. This scheme is open to substantially all employees.

CHARITABLE AND POLITICAL DONATIONS

The Group made charitable donations of £16,000 in the year (2006 - £6,000). The Group did not make any political contributions.

AUDITORS

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and

- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Grant Thornton UK LLP replaced Deloitte & Touche LLP as auditors during the year. A resolution to re-appoint Grant Thornton UK LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

M. Wallwork
Secretary
15 November 2007

2 Hollins House
329 Hale Road
Hale Barns
Cheshire
WA15 8TS

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, the Chief Executive, the Finance Director, the Director of Wealth Management, the Property Director and two other 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.

John Lawrence (Aged 62) Non-Executive Chairman

John Lawrence formed JEL Energy Conservation Services in 1975, which was sold to Thorn EMI. Following this he was Chairman and CEO of a number of Thorn EMI technology companies. Since 1993 he has been an investor and has held Non-Executive positions with a number of public and private companies. He is currently a Director of W.H. Ireland Group PLC and Aberdeen Growth VCT 1 plc and Non-Executive Chairman of BES Consulting Limited.

Neil Rodford (Aged 38) Chief Executive

Neil Rodford joined the Group in January 2001 and was previously the Group's Chief Operating Officer. He has previously held positions as Managing Director of Fulham FC and was a Business Development Manager of the Keegan Partnership.

Mark Page ACA (Aged 44) Finance Director

Mark Page joined the Group as Financial Controller having previously held various financial positions at Coopers & Lybrand and Big Food Group PLC. Mark became the Group's Finance Director in September 2002.

Ian Battersby (Aged 49) Director of Wealth Management

Ian Battersby joined Kingsbridge in July 2000 and has been their Business Development Director since that time. He was Regional Commercial Director for LloydsTSB Group and has held senior positions with Hill Samuel and Nat West.

Noel O'Carroll (Aged 47) Property Director

Noel O'Carroll is Managing Director of the Property Division. 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.

Michael Kennedy (Aged 63) 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.

Alec Craig (Aged 50) Non-Executive Director

Alec Craig is Senior Partner of Halliwells LLP solicitors and is also Non-Executive Chairman of Tepnel Life Sciences PLC and a Non-Executive Director of Aberdeen Growth Opportunities VCT PLC.

Mike Wallwork (Aged 37) Company Secretary

Mike spent 16 years with Royal & Sun Alliance where he became Head of UK Media Relations in 1999. Mike joined the Group in July 2007, as Communications Director and Company Secretary.

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 J. E. Lawrence (Chairman), I. A. Craig and M. Kennedy. The Nominations Committee is responsible for regularly reviewing the structure, size and composition of the Board and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. In considering an appointment the Nominations Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities of a particular appointment.

RELATIONS WITH SHAREHOLDERS

Communications with shareholders are given a high priority. There is dialogue with both institutional and private investors as well as general presentations after the interim and full year results are announced. The Company also makes available on its website (**www.formationgroupplc.com**) the latest Annual Report and Investor Presentation, as well as relevant announcements. The Company also responds throughout the year to numerous letters from individual shareholders on a wide range of issues on a timely basis.

All shareholders are given at least twenty one days notice of the Annual General Meeting at which Directors are available for questions.

AUDIT COMMITTEE

The Audit Committee monitors the adequacy of the Group's internal financial controls, accounting policies and financial reporting. It reviews the interim and full year's financial statements prior to submission to the main Board. The Committee liaises with external auditors and reviews the scope of the audit and is also responsible for overseeing all matters associated with the appointments, terms, remuneration and performance of the auditors.

Non-audit work undertaken by the auditors is limited to work that requires detailed knowledge derived from the statutory audit (for example, taxation work) or to work where fees involved (either individually or annually in total) are not considered to be material. In other circumstances, proposed assignments are put out to competitive tender.

The Audit Committee has reviewed the remuneration received by Grant Thornton UK LLP (and previously Deloitte & Touche LLP) for non-audit work. The fees for non-audit work are analysed in note 4 to the consolidated financial statements. The Audit Committee has concluded that no conflict of interest exists between Grant Thornton UK LLP (and previously Deloitte & Touche LLP) audit and non-audit work and that their involvement was based on the most effective way of conducting the Group's business.

The Committee is composed of J. E. Lawrence (Chairman), I. A. Craig and M. Kennedy. The Chief Executive and Finance Director also attend Audit Committee meetings by invitation.

BOARD AND COMMITTEE ATTENDANCE

The following table details the number of Board and Committee meetings held in the year ended 31 August 2007 and the attendance record of each Director and the Company Secretary.

Attendance	Board	Remuneration Committee	Audit Committee	Nominations Committee
Number of meetings	**12**	**2**	**3**	**2**
J. E. Lawrence	12	2	3	2
I. A. Craig	11	2	3	2
M. Kennedy	12			
L. A. Turnbull (to May 2007)	4	2		
N. Rodford	12	2	3	2
M. Page	11	2	3	2
I. Battersby (from October 2006)	9			
N. O'Carroll (from June 2007)	1			
M. Wallwork (from August 2007)	1			
J. Foxcroft (to October 2006)	-			
D. McKee (to October 2006)	1			

M. Kennedy became a Non Executive Director and a member of the Remuneration Committee, Audit Committee and Nominations Committee on 21 June 2007.

FINANCIAL REPORTING AND GOING CONCERN

It is the Board's duty to prepare a balanced and understandable assessment of the Group's position and prospects. A regular review of the Group's financial statements, cash balances and forecasts is undertaken by the Directors, enabling them to make an informed judgement of the Group's future trading ability. At the time of approving the financial statements, their judgement states that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

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 Combined Code", there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process was in place throughout the year under review and up to the date of approval of the annual report.

There is no formal internal audit department, as the Board does not consider this to be necessary due to the size of the operations in the Group. The Board will keep this decision under review as the Group grows. The Finance Director and Chief Executive are currently responsible for relevant control and monitoring procedures. This information collated by them is presented to the Board for the Directors to assess the effectiveness of the system of internal control. In addition, the Board monitors the Group's significant risks on an ongoing basis.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

This report has been voluntarily prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with Companies Act 1985 (as amended by the Regulations). 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: J. E. Lawrence, I. A. Craig and M. Kennedy. The Committee is chaired by J.E. Lawrence 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. During the year, the Board commissioned a report from Deloitte & Touche LLP that benchmarked Director salaries against those of similar companies.

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 Company 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 a Long Term Incentive Plan. Grants of options under this plan are at a nominal value.

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.

DIRECTORS' PENSION ARRANGEMENTS

Certain Executive Directors are eligible to be members of the Company's money purchase (defined contribution) Group personal pension scheme. The Company makes pension contributions of 10 percent of basic salary for these Executive Directors.

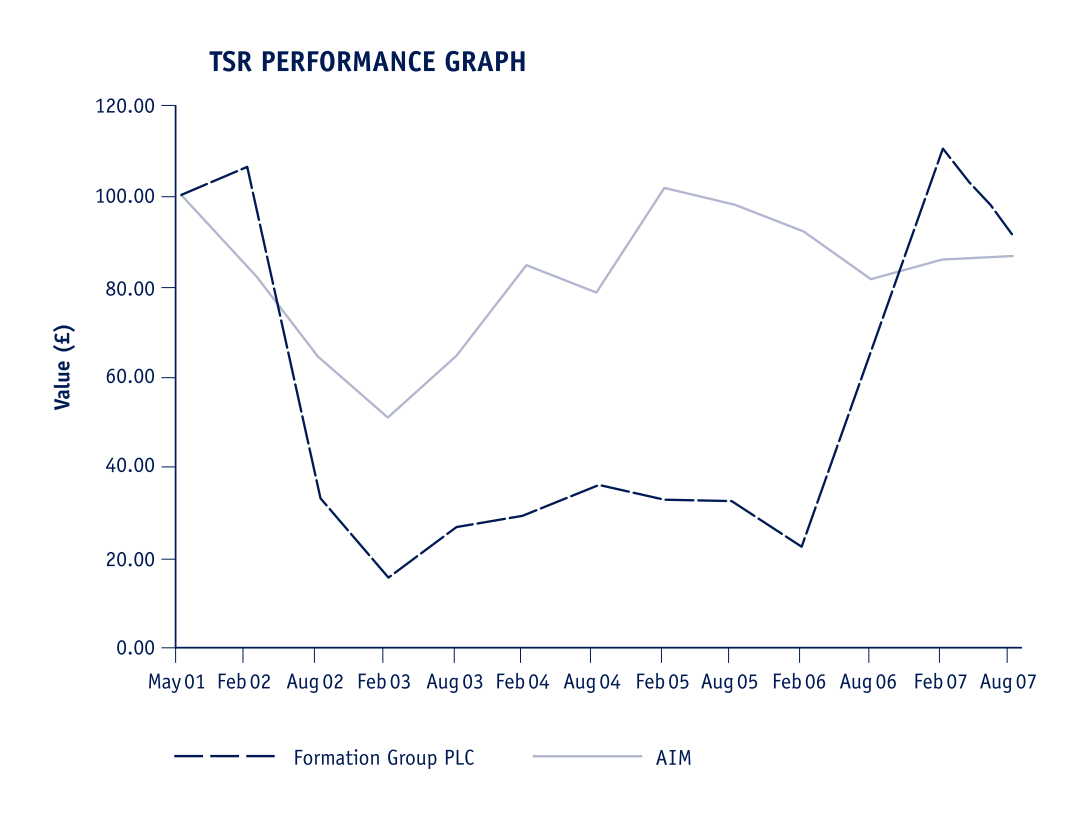
SERVICE AGREEMENTS

All Executive Directors have service contracts with at least six months notice. All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set out in the Articles of Association and based upon independent surveys of fees paid to Non-Executive Directors of similar companies. Non-Executive Directors can participate in the Non-Executive share option scheme but are not eligible to join the Company's pension scheme.

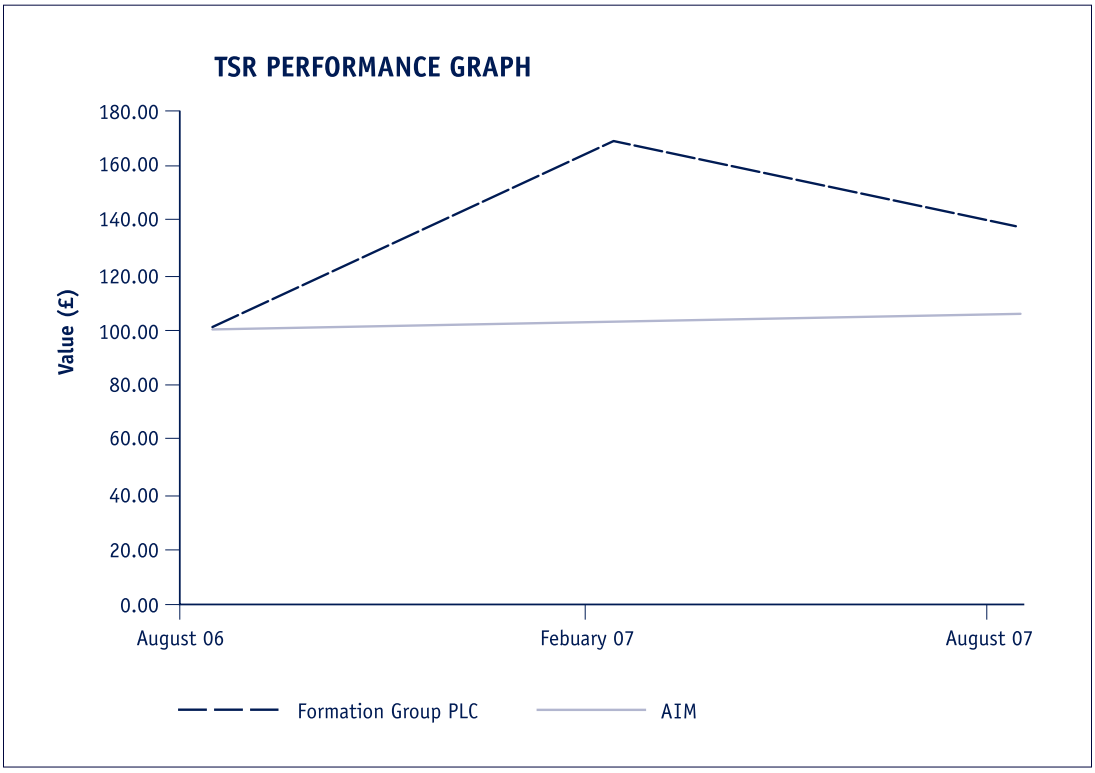
In the case of early termination of employment, the Committee will adopt the objectives outlined in the Combined Code.

PERFORMANCE GRAPH

The following graph illustrates the Company's Total Shareholder Return (TSR) performance since 17 May 2001 relative to the FTSE AIM index. The FTSE AIM comparator group was chosen as Formation Group PLC is a member of that index. The graph looks at the value, until 31 August 2007, of £100 invested in Formation Group PLC on 17 May 2001 compared with that of £100 invested in the FTSE AIM. The other points are plotted at half-year and financial year-ends.



The graph opposite illustrates the Company's TSR performance for the year ended 31 August 2007, the period since the last annual report and financial statements. The graph looks at the value, by 31 August 2007, of £100 invested in Formation Group PLC on 1 September 2006 compared with that of £100 invested in the FTSE AIM. The other point is plotted at the half-year end.



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
N. Rodford	1 September 2003	12 months
M. Page	25 June 2003	12 months
I. Battersby	13 October 2003	12 months
N. O'Carroll	25 May 2007	6 months

By order of the Board,

J. E. Lawrence
Chairman - Remuneration Committee
15 November 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FINANCIAL STATEMENTS

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In addition these financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

OTHER MATTERS

The Directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORMATION GROUP PLC

We have audited the consolidated financial statements of Formation Group PLC for the year ended 31 August 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and notes 1 to 31. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Formation Group PLC for the year ended 31 August 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the consolidated statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the consolidated financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive Officer's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive Officer's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

OPINION

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 August 2007 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the consolidated financial statements.

SEPARATE OPINION IN RELATION TO IFRSs

As explained in Note 1 to the consolidated financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 August 2007 and of its profit for the year then ended.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Manchester

15 November 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2007

	Notes	2007 £'000	2006 £'000
Continuing operations			
Revenue – existing operations		**7,487**	6,766
Revenue – acquisitions		**3,651**	-
Revenue	2	**11,138**	6,766
Cost of sales		**(3,697)**	(343)
Gross profit		**7,441**	6,423
Administrative expenses		**(6,293)**	(6,077)
Operating profit from continuing operations			
Existing operations		**768**	346
Acquisitions		**380**	-
Operating profit from continuing operations	2	**1,148**	346
Investment income	3	**261**	8
Finance costs	3	**(40)**	(107)
Profit before taxation		**1,369**	247
Taxation	7	**(434)**	(88)
Profit for the year from continuing operations		**935**	159
Discontinued operations			
Profit for the year from discontinued operations	8	**4,748**	384
Profit for the year attributable to equity holders of parent	4	**5,683**	543
Earnings per share			
From continuing operations			
Basic	9	**0.66p**	0.13p
Diluted	9	**0.65p**	0.13p
From discontinued operations			
Basic	9	**3.36p**	0.33p
Diluted	9	**3.28p**	0.33p
From continuing & discontinued operations			
Basic	9	**4.02p**	0.46p
Diluted	9	**3.93p**	0.46p

		2007 £'000	2006 £'000
Final dividend paid for the year ended 31 August 2006 of 0.105p per ordinary share (2005 – 0.095p)	**10**	**131**	109

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 AUGUST 2007

	2007	2006
	£'000	£'000
Exchange loss on foreign currency translation of foreign operations	**(13)**	(17)
Profit for the year attributable to equity holders of the parent	**5,683**	543
Total recognised income and expense for the year attributable to equity holders of the parent	**5,670**	526

CONSOLIDATED BALANCE SHEET

31 AUGUST 2007

	Notes	**2007 £'000**	2006 £'000
Non-current assets			
Goodwill	12	**31,685**	15,917
Other intangible assets	11	**26**	42
Property, plant and equipment	13	**314**	349
Long term financial assets	14	**4,862**	-
Deferred tax asset	22	**20**	124
		36,907	16,432
Current assets			
Inventories	15	**2,291**	-
Trade and other receivables	16	**7,281**	6,782
Cash and cash equivalents	17	**3,605**	2,187
		13,177	8,969
Total assets		**50,084**	25,401
Current liabilities			
Trade and other payables	18	**(9,938)**	(8,419)
Current income tax liabilities		**(711)**	(753)
Obligations under finance leases	20	**(37)**	(4)
Bank overdrafts and loans	19	**-**	(44)
		(10,686)	(9,220)
Net current assets/(liabilities)		**2,491**	(251)
Non-current liabilities			
Trade and other payables	18	**(1,560)**	(343)
Obligations under finance leases	20	**(15)**	(30)
		(1,575)	(373)
Total liabilities		**(12,261)**	(9,593)
Net assets		**37,823**	15,808

Equity

	Notes	**2007 £'000**	2006 £'000
Share capital	23	**2,058**	1,264
Share capital to be issued	23	**500**	-
Share premium account	24	**2,106**	694
Treasury shares	24	**(689)**	(138)
Capital redemption reserve	24	**61**	61
Currency and other reserves	24	**17,856**	3,839
Profit and loss account	24	**15,640**	10,088
Total equity attributable to the parent's shareholders		**37,532**	15,808
Minority interests	24	**291**	-
Total equity	24	**37,823**	15,808

The financial statements were approved by the Board of Directors on 15 November 2007 and signed on its behalf by:

Mark Page
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2007

	Notes	2007 £'000	2006 £'000
Cash generated by operations	27	**1,703**	1,017
Income taxes paid		**(101)**	(395)
Interest paid		**(40)**	(108)
Net cash inflow from operating activities		**1,562**	514
Investing activities			
Interest received		**262**	14
Proceeds on disposal of property, plant and equipment		**8**	18
Purchases of property, plant and equipment		**(1,075)**	(170)
Purchases of trade marks and rights		**(1)**	(2)
Deferred consideration paid		**(385)**	(356)
Acquisition of subsidiaries		**(1,600)**	(242)
Cash acquired with subsidiaries		**425**	135
Acquisition expenses		**(141)**	(107)
Purchase of long term financial assets		**(4,862)**	-
Net proceeds on disposal of subsidiary companies		**8,662**	1,366
Cash disposed of with subsidiary companies		**(1,986)**	(8)
Net cash (used by)/generated by investing activities		**(693)**	648
Financing activities			
Dividends paid		**(131)**	(109)
Proceeds on issue of shares		**1,500**	791
Purchase of own shares		**(751)**	(138)
Repayments of obligations under finance leases		**(12)**	(20)
Net cash generated by financing activities		**606**	524
Net increase in cash and cash equivalents		**1,475**	1,686
Cash and cash equivalents at the beginning of the year		**2,143**	474
Effect of foreign exchange rate changes		**(13)**	(17)
Cash and cash equivalents at the end of the year		**3,605**	2,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Formation Group PLC is a company incorporated in the United Kingdom under The Companies Act 1985. The address and registered office is 2 Hollins House, 329 Hale Road, Hale Barns, Cheshire, WA15 8TS. The nature of the Group's operations and its principal activities are set out in the Directors' Report on page 18.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 1.

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), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Practice is continuing to evolve on the application and interpretation of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

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 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 the 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.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

BUSINESS COMBINATIONS

The acquisition of a subsidiary is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

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.

INTANGIBLE ASSETS

Trademarks are included at cost and amortised in equal annual instalments over a period of ten years which is their estimated useful economic life. Provision is made for any impairment.

Other rights are image rights which are included at cost and written off in equal instalments over their useful economic life. Provision is made for any impairment.

PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all plant, property and equipment at rates calculated to write off the cost or valuation, 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
Plant & equipment	Between 3 and 10 years
Motor vehicles	4 years

Borrowing costs are expensed as incurred in the income statement.

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.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

TAXATION

The tax expense represents the sum of the corporation tax currently payable and the deferred tax charge. The corporation tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associates, and interests in joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been substantially 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 football management services is recognised in accordance with the provision of service under the terms and conditions of the contract.

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

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

Revenue for accountancy and taxation services represents amounts chargeable for services provided to clients. Services provided to clients during the year, which at the balance sheet date have not been billed, have been recognised as revenue. This is based on an assessment of the fair value of the services provided at the balance sheet date as a proportion of the total value of the contract.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

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

Revenue is net of VAT and other sales related taxes. Invoices raised by the Group but not yet recognised as revenue, in line with the revenue recognition policy above, are credited to accruals and deferred income. Similarly invoices received by the Group but not yet recognised as costs, in line with the revenue recognition policy above, are debited to prepayments and accrued income.

EMPLOYEE BENEFITS – RETIREMENT BENEFIT COSTS

The Group operates a defined contribution scheme. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the total of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

FOREIGN CURRENCY

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised in the balance sheet and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the income statement over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees (including Directors). The fair value of these payments is calculated by the Group using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Group's best estimate of shares that will eventually vest.

INVENTORIES - WORK IN PROGRESS

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

FINANCIAL ASSETS

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

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity where it is the intention of the Directors to hold them until maturity. Held-to-maturity investments are measured subsequent to initial recognition at amortised cost using the effective interest method. If there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in the income statement. The Group does not currently hold any financial assets under this category.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently. The Group does not currently hold any financial assets under this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, Loan note due from Columbia Formation Group (Ireland) Limited 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 trade receivables is 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.

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

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

The Group's available-for-sale financial assets include its participation in the ordinary shares of Columbia Formation Group (Ireland) Limited. The fair value of this asset is estimated by reference to the valuation of the underlying property development assets.

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

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

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

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. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition. The Group does not currently hold any financial liabilities within this category.

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 recognised in accordance with the revenue recognition policies set out above.

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share capital to be issued" represents the total value of equity shares to be issued.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Currency and other reserves" includes equity-settled share-based employee remuneration until such share options are exercised, the differences arising from translation of investments in overseas subsidiaries and the premium arising on share issued as part of share for share exchanges.
- "Profit and loss account" represents retained profits.
- "Treasury shares" represents ordinary shares held in the share capital of the Company.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

OPERATING PROFIT

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

1. SIGNIFICANT ACCOUNTING POLICIES *continued*

CRITICAL ACCOUNTING POLICIES AND KEY SOURCES OF UNCERTAINTY

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from the actual results. The assumptions and estimates that have a significant risk of causing a material adjustment within the next financial year are:

- 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.
- Valuation of equity securities in Columbia Formation Group (Ireland) Limited - the estimate of fair value in respect of these equity securities is dependent on the valuation of the underlying property development assets of this company.
- Recognition of revenue and profit on construction project management - revenue and profit are recognised over the anticipated term of the underlying construction project which requires an estimate to be made of the anticipated project completion date.

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.

- IAS 1 'Presentation of Financial Statements' (revised 2007) (effective 1 January 2009);
- IAS 23 'Borrowing Costs (revised 2007)' (effective 1 January 2009);
- IFRS 7 'Financial instruments: disclosures' and the related amendments to IAS 1 on capital disclosures (effective 1 January 2007);
- IFRS 8 'Operating segments' (effective 1 January 2009);
- IFRIC 11 and IFRS 2 'Group and treasury share transactions' (effective 1 March 2007);
- IFRIC 12 'Service concession arrangements' (effective 1 January 2008);
- IFRIC 13 'Customer loyalty programmes' (effective 1 July 2008); and
- IFRIC 14 and IAS 19 'The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective 1 January 2008).

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007. The Group does not intend to apply any of these pronouncements early.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into two operating divisions; Professional Services and Property Development and Investment. These divisions are the basis on which the Group reports its primary segment information.

The Group had previously reported as three divisions. The Sports Marketing division was discontinued with effect from 31 October 2006 (see note 26), and the Representation and Wealth Management & Professional Services divisions were combined into the Professional Services division following the establishment of the Property Development and Investment division. Segment information about these businesses is presented below:

2007

	Professional Services £'000	Property Development and Investment £'000	Sports Marketing £'000	Discontinued operations £'000	Consolidated £'000
Revenue	7,487	3,651	1,742	(1,742)	11,138
Segment operating profit	1,566	380	262	(262)	1,946
Unallocated corporate expenses					(798)
Operating profit					1,148
Investment income					261
Finance costs					(40)
Profit before taxation					1,369
Taxation					(434)
Profit for the year from continuing operations					935
Profit for the year from discontinued operations					4,748
Profit for the year attributable to equity shareholders of the parent					5,683

2. SEGMENT INFORMATION *continued*

2006

	Professional Services £'000	Property Development and Investment £'000	Sports Marketing £'000	Discontinued operations £'000	Consolidated £'000
Revenue	7,438	-	8,325	(8,997)	6,766
Segment operating profit	1,300	-	1,261	(1,023)	1,538
Unallocated corporate expenses					(1,192)
Operating profit					346
Investment income					8
Finance costs					(107)
Profit before taxation					247
Taxation					(88)
Profit for the year from continuing operations					159
Profit for the year from discontinued operations					384
Profit for the year attributable to equity shareholders of the parent					543

2. SEGMENT INFORMATION *continued*

OTHER INFORMATION 2007

	Professional Services £'000	Property Development and Investment £'000	Discontinued operations £'000	Central Costs £'000	Consolidated £'000
Capital additions	3,579	15,181	951	37	19,748
Depreciation and amortisation	67	2	8	18	95

ASSETS

	Professional Services £'000	Property Development and Investment £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Segment assets	25,767	23,626	-	(2,254)	47,139
Unallocated corporate assets					2,945
Consolidated total assets					50,084
LIABILITIES					
Segment liabilities	(10,244)	(3,224)	-	2,254	(11,214)
Unallocated corporate liabilities					(1,047)
Consolidated total liabilities					(12,261)

2. SEGMENT INFORMATION *continued*

OTHER INFORMATION 2006

	Professional Services £'000	Property Development and Investment £'000	Discontinued operations £'000	Central Costs £'000	Consolidated £'000
Capital additions	58	-	292	31	381
Depreciation and amortisation	81	-	78	20	179

ASSETS

	Professional Services £'000	Property Development and Investment £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Segment assets	19,449	-	13,839	(8,169)	25,119
Unallocated corporate assets					282
Consolidated total assets					25,401
LIABILITIES					
Segment liabilities	(6,227)	-	(10,372)	8,169	(8,430)
Unallocated corporate liabilities					(1,163)
Consolidated total liabilities					(9,593)

2. SEGMENT INFORMATION *continued*

DISCONTINUED OPERATIONS

Discontinued operations had the following effect on the segment results of Professional Services, analysed into continuing and discontinued components.

	Discontinued 2007 £'000	Continuing 2007 £'000	Professional Services 2007 £'000	Discontinued 2006 £'000	Continuing 2006 £'000	Professional Services 2006 £'000
Total revenue	-	**7,487**	**7,487**	672	6,766	7,438
Segmental operating profit	-	**1,566**	**1,566**	(238)	1,538	1,300

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 8, which provides reconciliation to the net profit from discontinued operations.

GEOGRAPHICAL SEGMENTS

The Group's principal operations are located in the United Kingdom, the United States of America and the Republic of Ireland. The Group's Professional Services division is located in the United Kingdom and the United States of America. Property Development and Investment is located in the United Kingdom and the Republic of Ireland. Revenue from the Group's discontinued operations was derived from the United Kingdom and Scandinavia. The following table provides an analysis of the Group's sales from continuing operations by geographical market irrespective of the origin of the services:

	Revenue by geographical market	
	2007 £'000	2006 £'000
United Kingdom	**10,090**	6,243
Rest of Europe	**710**	-
Rest of the World	**338**	523
	11,138	6,766

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment net assets		Additions to property, plant, equipment and intangible assets	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
United Kingdom	**37,076**	14,666	**19,747**	342
Rest of Europe	**75**	513	-	37
Rest of the World	**672**	629	**1**	2
	37,823	15,808	**19,748**	381

3. INVESTMENT INCOME AND FINANCE COSTS

INVESTMENT INCOME

	2007 £'000	2006 £'000
Bank interest receivable	**261**	8

FINANCE COSTS

	2007 £'000	2006 £'000
Bank loan and overdraft	**24**	99
Interest on obligations under finance leases	**5**	6
Other	**11**	2
	40	107

4. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT

Profit for the year attributable to equity holders of parent is stated after charging:

	Continuing operations		**Discontinued operations**		**Total**	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Depreciation of property, plant and equipment	**77**	91	**8**	77	**85**	168
Loss on disposal of property, plant and equipment	**22**	-	**-**	-	**22**	-
Cost of inventories recognised as expense	**3,096**	-	**-**	-	**3,096**	-
Amortisation of trademarks and image rights	**10**	11	**-**	-	**10**	11
Employee costs	**4,227**	4,312	**898**	1,398	**5,125**	5,710
Auditors' remuneration (see overleaf)	**144**	116	**-**	22	**144**	138

4. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT *continued*

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

	2007 £'000	2006 £'000
Audit fees	**62**	86
Tax advisory	**32**	28
Tax compliance	**15**	24
Acquisitions due diligence	**168**	-
Other advisory	**35**	-
	312	138

Included in the above is £29,000 (2006: £31,000) relating to auditors' remuneration for audit services provided to the Company. Of the £312,000 of fees, £168,000 has been capitalised in the cost of investment.

5. EMPLOYEE COSTS

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

	2007 Number	2006 Number
Professional Services	**49**	51
Property Development and Investment	**3**	-
Sports Marketing	**5**	25
Administration	**12**	18
	69	94

	2007 £'000	2006 £'000
Their aggregate remuneration comprised:		
Wages and salaries	**4,402**	5,096
Social security costs	**491**	494
Other pension costs (see note 29)	**232**	120
	5,125	5,710

6. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS

AGGREGATE REMUNERATION

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

	2007 £'000	2006 £'000
Emoluments	**1,258**	892
Money purchase pension contributions	**175**	61
	1,433	953

DIRECTORS' EMOLUMENTS

Name of Director	Fees/basic salary £'000	Bonuses £'000	Taxable benefits £'000	**2007 Total £'000**	2006 Total £'000
Executive					
N. Rodford	143	260	18	**421**	143
M. Page	92	-	1	**93**	102
I. Battersby	94	58	1	**153**	-
N. O'Carroll	26	-	-	**26**	-
D. McKee	24	-	-	**24**	215
J. Foxcroft	17	331	-	**348**	264
Non-Executive					
J. E. Lawrence	37	35	-	**72**	35
M. Kennedy	100	-	-	**100**	100
L. A. Turnbull	21	-	-	**21**	-
J. E. Smith	-	-	-	-	33
Aggregate emoluments	554	684	20	**1,258**	892
Fees to third parties				**25**	25

Fees to third parties comprise amounts paid to Grantsearch under an agreement to provide the Group with the services of Mr I. A. Craig.

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 2006 Number	Options granted Number	**At 31 August 2007 Number**	Exercise price	Date from which exercisable	Expiry Date
N. Rodford	Unapproved	1,000,000	-	**1,000,000**	7.13p	12/12/06	11/12/13
N. Rodford	LTIPS	-	954,545	**954,545**	0.00p	01/09/10	20/06/17
M. Page	EMI	500,000	-	**500,000**	7.13p	12/12/06	11/12/13
M. Page	LTIPS	-	300,000	**300,000**	0.00p	01/09/10	20/06/17
I. Battersby	EMI	450,000	-	**450,000**	7.13p	12/12/06	11/12/13
J. E. Lawrence	NED	500,000	-	**500,000**	7.13p	12/12/06	11/12/13
M. Kennedy	Unapproved	1,000,000	-	**1,000,000**	8.13p	02/02/08	01/02/15
I. A. Craig	NED	500,000	-	**500,000**	7.13p	12/12/06	11/12/13

The market price of the ordinary shares at 31 August 2007 was 22.75p and the range during the year was 12.00p to 37.75p. Share options are issued to senior executives of the Group and have performance targets relating to the Group's operating profit for each of the three years following the grant of the options. The Remuneration Committee believes that the use of the operating profit represents the most appropriate measure of the Group's financial performance.

6. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS *continued*

Certain Executive Directors are permitted under their service contracts to receive contributions from the Company to their personal pension schemes. Contributions payable by the Company in respect of such Directors were as follows:

	2007 £'000	2006 £'000
N. Rodford*	**54**	53
M. Page*	**108**	8
I. Battersby	**9**	-
N. O'Carroll	**4**	-
	175	61

* Includes element in lieu of bonus payment.

DIRECTORS' INTERESTS

The Directors who held office at 31 August 2007 had the following beneficial interests in the 1p ordinary shares of the Company:

	31 August 2007 Number	31 August 2006 or date of appointment Number
N. Rodford	**1,105,354**	1,075,454
M. Page	**352,493**	332,493
I. Battersby	**263,500**	263,500
N. O'Carroll	**-**	-
J. E. Lawrence	**765,000**	765,000
I. A. Craig	**350,000**	350,000
M. Kennedy	**50,000**	50,000

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 charge comprises:

	Continuing operations		Discontinued operations		Total	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Current tax	**407**	115	**111**	300	**518**	415
Deferred tax (note 22)	**27**	(27)	**(19)**	(21)	**8**	(48)
	434	88	**92**	279	**526**	367

UK corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The tax on discontinued operations related to profits/losses arising in the Sports Marketing Division, which was disposed of during the year, and the Scandinavian representation business, which was disposed of in the 2006 financial year. 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:

	2007 £'000	2006 £'000
Profit before tax		
Continuing operations	**1,369**	247
Discontinued operations	**4,840**	663
	6,209	910
Tax at UK corporation tax rate of 30% (2006:30%)	**1,863**	273
Adjustment for tax-exempt income	**(1,366)**	-
Tax effect of expenses/income not deductible/taxable for tax purposes	**(13)**	144
Effect of different tax rates	**12**	-
Adjustment in respect of prior periods	**30**	(50)
Tax charge for the year	**526**	367

8. DISCONTINUED OPERATIONS

On 10 July 2006, the Group sold its holding in Proactive Scandinavia which carried out all of the Group's representation activities in Scandinavia. The results of this company were previously included in the Professional Services division.
On 31 October 2006, the Group completed the disposal of its Sports Marketing business, which was a separate division.

RESULTS OF DISCONTINUED OPERATIONS

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

	2007 £'000	2006 £'000
Revenue	**1,742**	8,997
Cost of sales	**(1,154)**	(4,924)
Gross profit	**588**	4,073
Administrative expenses	**(326)**	(3,050)
Operating profit from discontinued operations	**262**	1,023
Investment income	**1**	6
Finance costs	**-**	(1)
Profit before taxation	**263**	1,028
Attributable tax expense	**(92)**	(279)
Profit for discontinued operations	**171**	749
Profit/(loss) on disposal of discontinued operations	**4,577**	(365)
Attributable tax expense	-	-
Profit/(loss) on disposal of discontinued operations	**4,577**	(365)
Net profit attributable to discontinued operations	**4,748**	384

Of the operating profit from discontinued operations, £262,000 is from the Sports Marketing division (2006; £1,261,000) and £nil is from the Professional Services division (2006: a loss of £238,000).

Of the profit on disposal of discontinued operations, a profit of £4,590,000 arose on the disposal of the Sports Marketing Division (see note 26) and a loss of £13,000 arose on the disposal of Proactive Scandinavia.

During the year, the Sports Marketing division had a net inflow of £1,146,000 (2006: £814,000) to the Group's net operating cash flows and paid £1,118,000 (2006: £410,000) in respect of investing activities.

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

9. EARNINGS PER SHARE

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

	2007 £'000	2006 £'000
Basic and diluted earnings – continuing operations	**935**	159
Basic and diluted earnings – discontinued operations	**4,748**	384
Basic and diluted earnings – continuing and discontinued operations	**5,683**	543

	2007 Number of shares '000	2006 Number of shares '000
Weighted average number of shares:		
Basic	**141,277**	118,462
Dilutive effect of share options	**3,412**	-
Diluted	**144,689**	118,462

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.

10. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2007 £'000	2006 £'000
Final dividend paid for the year ended 31 August 2006 of 0.105p per ordinary share (2005 – 0.095p)	**131**	109
Proposed final dividend for the year ended 31 August 2007 of 0.115p per ordinary share (2006 – 0.105p)	**235**	131

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. OTHER INTANGIBLE ASSETS

	Trademarks £'000	Other rights £'000	Total £'000
COST			
At 1 September 2005	15	65	80
Additions	2	-	2
At 1 September 2006	17	65	82
Additions	1	-	1
Disposals	(1)	(15)	(16)
Disposal of subsidiary	(4)	-	(4)
At 31 August 2007	**13**	**50**	**63**
DEPRECIATION			
At 1 September 2005	5	24	29
Charge for the year	2	9	11
At 1 September 2006	7	33	40
Charge for the year	1	9	10
Disposals	-	(10)	(10)
Disposal of subsidiary	(3)	-	(3)
At 31 August 2007	**5**	**32**	**37**
NET BOOK VALUE			
At 31 August 2007	**8**	**18**	**26**
At 31 August 2006	10	32	42
At 31 August 2005	10	41	51

Trademarks are amortised over their estimated useful lives, which on average is 10 years. Other rights relate principally to player image rights and are amortised over their estimated useful lives of 8 years.

12. GOODWILL

	Goodwill £'000
At 1 September 2005	17,275
Recognised on acquisition of a subsidiary	209
Derecognised on disposal of a subsidiary	(1,551)
Changes in contingent consideration payable	(45)
Additional acquisition costs	18
Adjustment to fair value of previously acquired assets	11
At 1 September 2006	15,917
Recognised on acquisition of subsidiaries	18,672
Derecognised on disposal of subsidiaries	(3,138)
Changes in contingent consideration payable	234
At 31 August 2007	**31,685**

During the year ended 31 August 2007, goodwill arising on acquisition relates to the acquisitions of Formation Design & Build Limited and O. J. Kilkenny & Co. Limited (see note 25) and the goodwill disposed of relates to the disposal of the Sports Marketing division (see note 26).

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:

	2007 £'000	2006 £'000
Professional Services	**16,515**	12,779
Property Development and Investment	**15,170**	-
Sports Marketing	**-**	3,138
	31,685	15,917

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 based on an estimated growth rate of 3%. 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 8%.

13. PROPERTY, PLANT AND EQUIPMENT

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
COST					
At 1 September 2005	197	419	59	112	787
Exchange differences	-	-	(1)	-	(1)
Additions	17	96	-	57	170
Disposals	-	(4)	-	(41)	(45)
Disposal of subsidiary	-	(142)	-	-	(142)
At 1 September 2006	214	369	58	128	769
Exchange differences	-	(2)	-	-	(2)
Additions	23	63	954	35	1,075
Disposals	(18)	(15)	-	(28)	(61)
Acquisition of subsidiaries	-	58	-	-	58
Disposal of subsidiaries	(21)	(14)	(1,012)	(52)	(1,099)
At 31 August 2007	**198**	**459**	**-**	**83**	**740**
ACCUMULATED DEPRECIATION					
At 1 September 2005	57	269	9	27	362
Disposals	-	(4)	-	(23)	(27)
Disposal of subsidiary	-	(94)	-	-	(94)
Fair value adjustment	-	11	-	-	11
Charge for the year	19	89	12	48	168
At 1 September 2006	76	271	21	52	420
Exchange differences	-	(1)	-	-	(1)
Disposals	(2)	(9)	-	(20)	(31)
Disposal of subsidiaries	(10)	(9)	(25)	(3)	(47)
Charge for the year	14	46	4	21	85
At 31 August 2007	**78**	**298**	**-**	**50**	**426**
NET BOOK VALUE					
At 31 August 2007	**120**	**161**	**-**	**33**	**314**
At 31 August 2006	138	98	37	76	349
At 31 August 2005	140	150	50	85	425

The carrying value of the Group's motor vehicles includes an amount of £33,000 (2006 - £18,000) in respect of assets held under finance leases.

14. LONG TERM FINANCIAL ASSETS

Long term financial assets comprise the following, all of which are classified as available-for-sale with the exception of other debt which is classified as loans and receivables:

	2007 £'000	2006 £'000
Unlisted equity securities	**4,179**	-
Loan note	**683**	-
	4,862	-

Equity securities represents a 10% interest in the ordinary share capital of Columbia Formation Group (Ireland) Limited, a company registered in the Republic of Ireland. It is a holding company for two major property developments in the Republic of Ireland.

The loan note in Columbia Formation Group (Ireland) Limited is due to be redeemed on the second anniversary of issue or when the underlying land value reaches a prescribed value. No interest accrues on the loan note until the second anniversary of its issue. After this time, interest is accrued at the rate of 10% per annum.

15. INVENTORIES

	2007 £'000	2006 £'000
Work in progress	**2,291**	-

16. TRADE AND OTHER RECEIVABLES

	2007 £'000	2006 £'000
Trade receivables	**5,907**	4,692
Deferred consideration receivable	**571**	-
Other debtors	**233**	74
Prepayments and accrued income	**570**	2,016
	7,281	6,782

The Group's principal financial assets are bank balances, trade receivables and the equity investment in Columbia Formation Group (Ireland) Limited. The Group's credit risk is primarily attributable to its trade receivables. The amounts shown in the balance sheet are net of allowances for doubtful receivables, which total £186,000 at 31 August 2007 (2006 - £130,000). Allowances are estimates by management based on past default experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers in a number of different segments.

The average credit period taken on sales is 61 days (2006 - 81 days). Trade receivables do not carry interest.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

17. CASH AND BANK DEPOSITS

	2007 £'000	2006 £'000
Cash in hand and at bank	**3,605**	2,187

The effective interest rate on short term deposits for the year ended 31 August 2007 is 5.44% (2006 – no deposits held).

18. TRADE AND OTHER PAYABLES

	2007 £'000	2006 £'000
Current:		
Trade payables	**2,499**	2,371
VAT	**212**	330
Other taxation and social security	**801**	126
Contingent and deferred acquisition consideration	**2,479**	216
Other creditors	**1,166**	556
Accruals and deferred income	**2,781**	4,820
	9,938	8,419
Non current:		
Contingent and deferred acquisition consideration	**1,440**	135
Other creditors	**-**	208
Accruals and deferred income	**120**	-
	1,560	343

Trade creditors and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 93 days (2006 – 57 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

19. BANK OVERDRAFTS AND LOANS

	2007 £'000	2006 £'000
Current:		
Bank overdrafts	**-**	44

19. BANK OVERDRAFTS AND LOANS *continued*

The borrowings are repayable as follows:

	2007	2006
	£'000	£'000
On demand or within one year	**-**	44
	-	44
Less: amount due for settlement within 12 months (shown under current liabilities)	**-**	(44)
Amount due for settlement after 12 months	**-**	-

The weighted average interest rates paid were as follows:

	2007	2006
	%	%
Bank overdrafts	**6.73**	6.02
Bank loans	**6.50**	6.27

Bank loans of £nil (2006 - £1,200,000) were arranged at fixed interest rates and expose the Group to fair value interest risk. The Directors estimate the fair value of the Group's borrowings as follows:

	2007	2006
	£'000	£'000
Bank overdrafts	**-**	44

The other principal features of the Group's borrowings are as follows:

i) Bank overdrafts are repayable on demand and have been secured by debentures from Formation Group PLC and certain of the Group's subsidiary companies as well as an inter company cross guarantee between these companies. The average effective interest rate on bank overdrafts approximates 6.73% (2006 – 6.02%) per annum and are determined based on 1.5% plus prime rate. At the year end the Group had a facility of £500,000.

ii) The Group has a £1,500,000 rolling credit facility which was taken out on 5 May 2006. There were no drawings on this facility at the year end. This facility ceases on 31 August 2009. The facility has been secured by debentures from Formation Group PLC and certain of the Group's subsidiary companies as well as an inter company cross guarantee between these companies and carries an interest rate at 1.75% above LIBOR.

At 31 August 2007, the Group had available £2,000,000 (2006 - £3,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Analysis of borrowings by currency:

	Total	**Danish Kroner**
	£'000	**£'000**
31 August 2007		
Bank overdrafts	**-**	-
31 August 2006		
Bank overdrafts	**44**	44

20. FINANCE LEASES

Amounts payable under finance leases are as follows:

	2007	2006
	£'000	£'000
Within one year	**37**	4
Between one and two years	**4**	4
Between two and five years	**11**	26
	52	34

	Minimum lease payments		**Present value of lease payments**	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Within one year	**37**	7	**37**	4
In the second to fifth year	**21**	34	**15**	30
	58	41	**52**	34
Less: Future finance charges	**(6)**	(7)	**n/a**	n/a
Present value of lease obligation	**52**	34	**52**	34
Less: Amounts due for settlement within 12 months			**(37)**	(4)
Amounts due for settlement after 12 months			**15**	30

The Group had two finance leases at the year end. For the year ended 31 August 2007, the average effective borrowing rate was 7.4% (2006 – 7.65%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no amounts have been entered into for contingent rental payments. All lease obligations are denominated in sterling and the value of the Group's lease obligations under finance leases are secured by the lessor's rights over the leased assets.

21. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The primary risks faced by the Group are credit risk and price risk (specifically in respect of its investment in the equity securities of Columbia Formation Group (Ireland) Limited). The Board has reviewed and agreed policies for management of this risk, as summarised below. All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial statement risk are credit risk, liquidity risk and interest rate risk.

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.

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 does not believe it is exposed to any material concentrations of credit risk.

EQUITY PRICE RISK MANAGEMENT

The Group is exposed to equity price risks arising from an equity investment in Columbia Formation Group (Ireland) Limited. This equity investment is held for long term investment rather than trading purposes. The Group does not actively trade this investment.

TREASURY RISK MANAGEMENT

The Group maintains a centralised treasury function. All transactions entered into by the Group's treasury operations are required to be in support of, or as a consequence of, underlying commercial transactions.

FINANCE AND INTEREST RATE RISK

The interest on the Group's borrowings is linked to Nat West's base rate.

LIQUIDITY RISK

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.

FOREIGN EXCHANGE RISK

The Group's current activities are predominantly Sterling, Euro and US Dollar based and as a result the impact of changes in foreign exchange rates has been limited and no hedging has been necessary. The Group's transactional currency exposure, which arises from sales and purchases in currencies other than the Group's base currency, has been limited and so there has been no significant transactional exposure to hedge.

BORROWINGS AND CASH

The carrying values of cash and short-term borrowings approximate to their fair value because of the short-term maturity.

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 reporting period.

	Accelerated tax depreciation £'000	Share based payment £'000	Employee benefits £'000	Other £'000	Total £'000
At 1 September 2005	15	17	21	(26)	27
(Charge)/credit to income	6	15	(3)	30	48
Acquisition of subsidiary	2	-	-	-	2
Disposal of subsidiary	(6)	-	-	-	(6)
Other movement	-	-	-	53	53
At 1 September 2006	17	32	18	57	124
(Charge)/credit to income	4	(4)	(3)	(5)	(8)
Acquisition of subsidiaries	-	-	-	(177)	(177)
Disposal of subsidiaries	(8)	-	-	(30)	(38)
Other movement	-	119	-	-	119
At 31 August 2007	**13**	**147**	**15**	**(155)**	**20**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2007 £'000	2006 £'000
Deferred tax liabilities	(177)	(6)
Deferred tax assets	197	130
	20	124

23. SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2006 – 170,000,000)	**3,000**	1,700
Allotted and called-up		
205,772,960 ordinary shares of 1p each (2006 – 126,361,196)	**2,058**	1,264

	Number	**£'000**
At 1 September 2005	114,873,815	1,149
Issue of ordinary shares of 1p at 7.375p per ordinary share	11,487,381	115
At 1 September 2006	126,361,196	1,264
Issue of ordinary shares of 1p at 20.75p per ordinary share	70,588,235	706
Issue of ordinary shares of 1p at 17.00p per ordinary share	8,823,529	88
At 31 August 2007	**205,772,960**	**2,058**

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

SHARE CAPITAL TO BE ISSUED

In August 2007, the Company acquired O. J. Kilkenny & Co. Limited. Part of the consideration was satisfied by the issue of 2,242,152 new shares in the Company with a value of £500,000. These shares were allotted in September 2007.

The Company operates four share option schemes in relation to Group employees. Options are exercisable 3 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.

23. SHARE CAPITAL *continued*

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 2007	2006
Enterprise management incentive plan	16-May-01	16-May-04 to 15-May-11	25.00p	**112,000**	112,000
Unapproved share option scheme	12-Dec-03	12-Dec-06 to 11-Dec-13	7.13p	**1,000,000**	1,000,000
Enterprise management incentive plan	12-Dec-03	12-Dec-06 to 11-Dec-13	7.13p	**1,300,000**	1,850,000
Non Executive plan	12-Dec-03	12-Dec-06 to 11-Dec-13	7.13p	**1,000,000**	1,000,000
Non Executive plan	1-Jun-04	1-Jun-07 to 31-May-14	7.25p	**-**	500,000
Unapproved share option scheme	22-Nov-04	22-Nov-07 to 21-Nov-14	7.25p	**-**	200,000
Unapproved share option scheme	9-Dec-04	9-Dec-07 to 8-Dec-14	7.13p	**400,000**	400,000
Unapproved share option scheme	2-Feb-05	2-Feb-08 to 1-Feb-15	8.13p	**1,000,000**	1,000,000
LTIPS	21-Jun-07	1-Sep-10 to 20-Jun-17	-	**1,254,545**	-
				6,066,545	6,062,000

Movements in share options are summarised as follows:

	2007 Number of options	2007 Weighted average exercise price pence	2006 Number of options	2006 Weighted average exercise price pence
Outstanding at the beginning of the year	**6,062,000**	**7.64**	8,492,000	7.79
Options issued during the year	**1,254,545**	**-**	-	n/a
Surrendered or expired during the year	**(1,250,000)**	**7.20**	(2,430,000)	8.16
Outstanding at the end of the year	**6,066,545**	**6.15**	6,062,000	7.64
Exercisable at the end of the year	**3,412,000**	**7.72**	-	-

The options outstanding at 31 August 2007 have a weighted average exercise price of 6.15 pence and a weighted average remaining contractual life of 6.5 years.

23. SHARE CAPITAL *continued*

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

		2007	2006
Weighted average share price	Pence	**7.33**	7.33
Weighed average exercise price	Pence	**7.33**	7.33
Expected volatility	%	**37.6**	37.6
Expected life	Years	**3.55**	3.55
Risk-free rate	%	**4.69**	4.69
Expected dividend rate	%	**1.20**	1.20

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The Group and Company recognised a total credit of £8,000 (2006: an expense of £47,000) related to equity settled share based payment transactions.

24. STATEMENT OF CHANGES IN TOTAL EQUITY

	Share capital issued and to be issued £'000	Treasury shares £'000	Share premium account £'000	Capital redemption reserve £'000	Currency and other reserves £'000	Profit & loss account £'000	**Attributable to equity holders £'000**	Minority interest £'000	**Total equity £'000**
At 1 September 2005	1,149	-	18	61	3,809	9,654	**14,691**	-	**14,691**
Loss on foreign currency translation	-	-	-	-	(17)	-	**(17)**	-	**(17)**
Share options	-	-	-	-	47	-	**47**	-	**47**
Profit for the year	-	-	-	-	-	543	**543**	-	**543**
Dividends	-	-	-	-	-	(109)	**(109)**	-	**(109)**
Issue of new share capital	115	-	676	-	-	-	**791**	-	**791**
Acquisition of own share capital	-	(138)	-	-	-	-	**(138)**	-	**(138)**
At 1 September 2006	1,264	(138)	694	61	3,839	10,088	**15,808**	-	**15,808**
Loss on foreign currency translation	-	-	-	-	(13)	-	**(13)**	-	**(13)**
Disposal of subsidiary undertaking	-	-	-	-	(19)	-	**(19)**	-	**(19)**
Share options	-	-	-	-	108	-	**108**	-	**108**
Profit for the year	-	-	-	-	-	5,683	**5,683**	-	**5,683**
Dividends	-	-	-	-	-	(131)	**(131)**	-	**(131)**
Acquisition of own share capital	-	(751)	-	-	-	-	**(751)**	-	**(751)**
Issue of shares	-	200	-	-	-	-	**200**	-	**200**
Issue of new share capital	794	-	1,412	-	13,941	-	**16,147**	-	**16,147**
Share capital to be issued	500	-	-	-	-	-	**500**	-	**500**
Acquisition of subsidiary undertaking	-	-	-	-	-	-	-	291	**291**
At 31 August 2007	**2,558**	**(689)**	**2,106**	**61**	**17,856**	**15,640**	**37,532**	**291**	**37,823**

TREASURY SHARES

The treasury shares represents 3,659,119 (2006: 1,100,000) ordinary shares of 1p each in the share capital of the Company.

24. STATEMENT OF CHANGES IN TOTAL EQUITY *continued*

CURRENCY AND OTHER RESERVES

This reserve includes foreign currency reserves arising on the translation of foreign operations, credits to equity for share-based payments and the premium arising on ordinary shares issued in share for share exchanges.

MINORITY INTERESTS

This reserve arises in respect of the 10% minority interest in the ordinary share capital of O.J. Kilkenny & Co. Limited.

25. ACQUISITION OF SUBSIDIARIES

ACQUISITION OF FORMATION DESIGN & BUILD LIMITED

On 22 June 2007, the Group acquired 100% of the issued share capital of Formation Design & Build Limited ('FD&B'), a property development management business based in the UK. The consideration paid on completion was £14,647,000 and was satisfied by the issue of 70,588,235 ordinary shares in the Company (valued using the market price at the date of completion). The following table sets out the book and provisional fair value of the identifiable assets and liabilities acquired.

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Non-current assets			
Property, plant and equipment	16	-	16
Current assets			
Inventories	327	-	327
Trade and other receivables	1,550	-	1,550
Total assets	1,893	-	1,893
Bank overdraft	(198)	-	(198)
Trade and other payables	(1,370)	(264)	(1,634)
Total liabilities	(1,568)	(264)	(1,832)
Net assets	325	(264)	61
Goodwill			15,170
			15,231
Satisfied by:			
Issue of shares			14,647
Expenses incurred			584
			15,231

Provisional fair values have been assigned to the net assets acquired given the proximity of the acquisition to the date of approval of the consolidated financial statements. The provisional fair value adjustments include the deferral of income in line with the Group's accounting policy and an accrual for unrecorded costs.

25. ACQUISITION OF SUBSIDIARIES *continued*

The goodwill arising on acquisition is largely attributable to the enhancement of the Group's offering of property wealth management services following the extended ability to project manage the construction of property developments and the skills, expertise and client contacts of the key employees. At acquisition, there were no ongoing project management contracts and historically these contracts had generated negligible operating margins. No further intangible assets have been identified at acquisition.

Net cash outflows in respect of the acquisition comprised:

	£'000
Acquisition expenses	(141)
Net overdraft acquired	(198)
	(339)

FD&B generated a profit after taxation of £109,000 in the year ended 29 September 2006 (year ended 29 September 2005: £119,000). FD&B generated net cash inflow from operating activities of £615,000 in the year ended 29 September 2006 (2005: £550,000) and returns on investing activities of £25,000 (2005: £48,000).

25. ACQUISITION OF SUBSIDIARIES *continued*

ACQUISITION OF O. J. KILKENNY & CO. LIMITED

On 31 August 2007, the Group acquired 90% of the issued share capital of O. J. Kilkenny & Co. Limited, an accountancy practice based in the UK. The consideration paid on completion was £2,100,000, £1,600,000 was paid in cash and £500,000 was satisfied by the issue of 2,242,152 ordinary shares in the Company after the year end (valued using the market price at the date of completion). There are further deferred consideration payments payable in cash, dependent on the performance of the company. The following table sets out the book and provisional fair value of the identifiable assets and liabilities acquired.

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Non-current assets			
Property, plant and equipment	42	-	42
Current assets			
Inventories	1,597	-	1,597
Trade and other receivables	1,381	-	1,381
Cash at bank and in hand	623	-	623
Total assets	3,643	-	3,643
Trade and other payables	(308)	-	(308)
Corporation tax	(244)	-	(244)
Deferred tax	(177)	-	(177)
Total liabilities	(729)	-	(729)
Net assets	2,914	-	2,914
Minority interest			(291)
Goodwill			3,502
			6,125
Satisfied by:			
Cash consideration			1,600
Shares to be issued			500
Expenses incurred			106
Deferred consideration			3,919
			6,125

Provisional fair values have been assigned to the net assets acquired given the proximity of the acquisition to the date of approval of the consolidated financial statements.

The goodwill arising on acquisition is primarily attributable to the value derived from the skills, expertise and client contacts of key employees which cannot be separately recognised as an intangible asset. No further intangible assets have been identified at acquisition

25. ACQUISITION OF SUBSIDIARIES *continued*

Net cash outflows in respect of the acquisition comprised:

	£'000
Cash consideration	(1,600)
Net cash acquired	623
	(977)

O. J. Kilkenny & Co. Limited generated a profit after taxation of £421,000 in the year ended 31 May 2007 (year ended 31 May 2006: £109,000).

26. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

As referred to in note 8, on 31 October 2006, the Group disposed of its interests in the Sports Marketing division. The net assets of the Sports Marketing division, at the date of disposal and at 31 August 2006 were as follows:

	31 October 2006 £'000	31 August 2006 £'000
Property plant and equipment	**1,052**	129
Intangible assets	**1**	1
Trade receivables	**4,093**	8,453
Cash at bank and in hand	**1,986**	1,958
Deferred tax asset	**38**	18
Current tax liability	**(704)**	(592)
Trade payables	**(5,170)**	(6,555)
Attributable goodwill	**3,138**	3,138
	4,434	6,550
Fees and costs	**1,800**	
Profit on disposal	**4,590**	
Total consideration	**10,824**	
Satisfied by:		
Cash	**10,253**	
Deferred consideration	**571**	
	10,824	
Net cash inflow arising on disposal:		
Cash consideration	**10,253**	
Fees and bonuses	**(1,591)**	
Cash and cash equivalents disposed of	**(1,986)**	
	6,676	

26. DISPOSAL OF SUBSIDIARY UNDERTAKINGS *continued*

The deferred consideration is determined by reference to profits earned by the Sports Marketing division in the year ended 31 August 2007. The deferred consideration recognised of £571,000 represents the minimum consideration that the Group is currently entitled to receive. Discussions are ongoing with the purchaser regarding the finalisation of the amount of deferred consideration. The impact of Sports Marketing division on the Group's results in the current and prior periods is disclosed in note 8.

27. RECONCILIATION OF PROFIT FROM OPERATIONS TO NET CASH FROM OPERATIONS

	2007 £'000	2006 £'000
Operating profit from continuing operations	**1,148**	346
Operating profit from discontinued operations	**262**	1,023
Depreciation of property, plant and equipment	**85**	168
Amortisation of intangible assets	**10**	11
Share option (credit)/charge	**(8)**	47
Loss on sale of tangible fixed assets	**22**	-
Write off of intangible assets	**6**	-
Operating cash flows before movements in working capital	**1,525**	1,595
Increase in inventories	**(367)**	-
(Increase)/decrease in receivables	**(1,130)**	2,776
Increase/(decrease) in payables	**1,675**	(3,354)
Cash generated from operations	**1,703**	1,017

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.

28. OPERATING LEASE ARRANGEMENTS

	2007 £'000	2006 £'000
Minimum payments under operating leases recognised in income in the year	**204**	216

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		**Other**	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Group				
Within one year	**230**	148	**-**	2
In the second to fifth years inclusive	**574**	474	**-**	6
After five years	**190**	617	**-**	-
	994	1,239	**-**	8

28. OPERATING LEASE ARRANGEMENTS *continued*

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.

29. 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 £232,000 (2006 - £120,000).

30. 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:

Proactive Sports Management Limited's office is occupied on a 15 year lease from 17 May 2001 from James Hay Pension Trustees Limited which owns the property on trust for the personal pension plans of P. Stretford, K. B. Moran (both directors of Proactive Sports Management Limited) and J. Olsen. The terms of the lease, which were set by an independent commercial valuer at arm's length, to include rental of £65,000 p.a. invoiced quarterly in advance and rent reviews every 5 years which are upwards only and no break clauses. The charge for the year was £65,000 (2006 - £65,000) and no amount was due to James Hay Pension Trustees Limited at 31 August 2007 (2006 - £nil).

The office of Kingsbridge Asset Management Limited is occupied on a 15 year lease from 1 October 2003 from National Mutual Pension Trustees Limited which owns the property on trust for the personal pension plans of D. McKee and K. McMenamin (both employees of Kingsbridge Asset Management Limited). The terms of the lease, which were set by an independent commercial valuer at arm's length to include rental of £51,000 p.a. invoiced quarterly in advance and rent reviews every 3 years which are upwards only. The charge for the year was £64,000 (2006: £51,000) and no amount was due to National Mutual Pension Trustees Limited at 31 August 2007 (2006 - £nil).

The Company has entered into a nominated adviser and broker agreement with W H Ireland Limited. J. E. Lawrence is a non executive director of WH Ireland plc.

David Kennedy and certain trusts of which he is a named beneficiary (the "David Kennedy Family Trust") have an interest in 109,649,577 shares in the Company.

- During the year the Company entered into an agreement to advance a short term loan of £2 million to Rocquefort Properties Limited, a company owned by the members of the David Kennedy Family Trust. The loan was repaid in full during the year with interest of £10,000 (2006 - £Nil).

- As described in note 25, the Company purchased the ordinary share capital of Formation Design & Build Limited, which was under the control of the David Kennedy Family Trust.

- During the year, the Company acquired 10% of the issued share capital of Columbia Formation Group (Ireland) Limited ("CFGIL") for £4,179,000 (see note 14). Members of the David Kennedy Family Trust are the majority shareholders of CFGIL. The Company also subscribed for a loan note of £683,000 in CFGIL during the year.

- During the year, Formation Design & Build Limited project managed a number of property developments owned by companies controlled by the David Kennedy Family Trust. Revenue from these contracts totalled £3,651,000 (2006 - £Nil) in the year. At 31 August 2007, the Group had debtor balances with these companies of £1,093,000 (2006 - £Nil).

30. RELATED PARTY TRANSACTIONS *continued*

- As described in note 31, the Group acted as investment adviser for two property funds during the year. These funds made loans to property developers to part fund the developments. These property developers are under the control of the David Kennedy Family Trust. The Group has recognised revenue in respect of introduction fees of £1,878,000 in the year (2006 - £Nil) and £1,378,000 (2006 - £Nil) remained outstanding at the year end.

- During the year, Formation Design & Build Limited leased premises from Columbia House Properties (No.6) Limited (a company controlled by the David Kennedy Family Trust) on a five year lease. The terms of the lease include a rental of £52,000 per annum. The charge for the period from acquisition was £10,000 (2006 - £nil) and £nil was owed to Columbia House Properties (No.6) Limited at 31 August 2007 (2006 - £nil).

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.

	2007	2006
	£'000	£'000
Short-term employee benefits	**1,258**	892
Post employment benefits	**175**	61
	1,433	953

The charge to income in the year in respect of share-based payments for key management personnel was £15,000 (2006: £25,000).

31. OTHER FINANCIAL ASSETS AND GUARANTEES

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

WHITECHAPEL PROPERTY FUND LIMITED ("WHITECHAPEL")

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

Formation is entitled to a share of the residual profits of the related property development. Formation has underwritten half of the value of the loan and associated interest. The maximum liability in relation to this is £4.0 million.

ALDGATE EAST PROPERTY COMPANY LIMITED ("ALDGATE")

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

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

The fair value of these financial assets and guarantees is considered to be nil at 31 August 2007.

INDEPENDENT AUDITORS' REPORT ON THE COMPANY FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' 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 2007 which comprise the balance sheet and notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Formation Group PLC for the year ended 31 August 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive Officer's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive Officer's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Manchester

15 November 2007

COMPANY BALANCE SHEET

31 AUGUST 2007

	Notes	**2007**	2006
		£'000	£'000
Fixed assets			
Intangible assets	3	**4**	5
Tangible assets	4	**46**	46
Investments	5	**40,403**	16,543
		40,453	16,594
Current assets			
Debtors	6	**2,466**	231
Cash at bank and in hand		**721**	-
		3,187	231
Creditors: Amounts falling due within one year	7	**(5,432)**	(6,804)
Net current liabilities		**(2,245)**	(6,573)
Total assets less current liabilities		**38,208**	10,021
Creditors: Amounts falling due after one year	8	**(1,440)**	(28)
Net assets		**36,768**	9,993
Shareholders' equity			
Share capital	10	**2,058**	1,264
Share capital to be issued	10	**500**	-
Share premium account	11	**2,106**	694
Treasury shares	11	**(689)**	(138)
Capital redemption reserve	11	**61**	61
Other reserves	11	**17,845**	3,796
Profit and loss account	11	**14,887**	4,316
Total shareholders' equity		**36,768**	9,993

The financial statements were approved by the Board of Directors on 15 November 2007 and signed on its behalf by:

Mark Page
Director

The accounts have been prepared in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention. As permitted by section 230 of the Companies Act 1985, 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 £10,571,000 (2006: loss of £2,120,000).

As permitted by FRS 1 "Cash Flow Statements (Revised)", no cash flow statement has been prepared as the cash flows of the Company are included in the consolidated financial statements of Formation Group PLC which are publicly available. The consolidated financial statements of Formation Group PLC, which are presented separately, have been prepared in accordance with International Financial Reporting Standards.

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 or valuation, 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.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

PENSION COSTS AND OTHER POST RETIREMENT BENEFITS

The Company operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

LEASES

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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.

FINANCE COSTS

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

DEBT

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTIES

None of the above accounting policies are considered to be critical to the financial statements of the Company. There are no significant areas of estimation uncertainty.

SHARE-BASED PAYMENTS

The Company issues equity-settled share-based payments to certain employees (including Directors). The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

2. EMPLOYEE COSTS

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

	2007 Number	2006 Number
Professional Services	**2**	2
Sports Marketing	**-**	1
Administration	**3**	4
	5	7

	2007 £'000	2006 £'000
Their aggregate remuneration comprised:		
Wages and salaries	**1,402**	855
Social security costs	**175**	87
Other pension costs	**163**	21
	1,740	963

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

3. INTANGIBLE FIXED ASSETS

	Trademarks £'000
Cost	
At 1 September 2006 and 31 August 2007	**7**
Depreciation	
At 1 September 2006	2
Charge for the year	1
At 31 August 2007	**3**
Net book value	
At 31 August 2007	**4**
At 31 August 2006	5

4. TANGIBLE FIXED ASSETS

	Short leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 September 2006	17	49	54	120
Additions	23	15	-	38
Disposals	(17)	(9)	-	(26)
At 31 August 2007	**23**	**55**	**54**	**132**
Depreciation				
At 1 September 2006	1	37	36	74
Charge for the year	1	4	12	17
Eliminated on disposals	(2)	(3)	-	(5)
At 31 August 2007	**-**	**38**	**48**	**86**
Net book value				
At 31 August 2007	**23**	**17**	**6**	**46**
At 31 August 2006	16	12	18	46

The carrying value of the Company's motor vehicles includes an amount of £6,000 (2006 - £18,000) in respect of assets held under finance leases.

5. INVESTMENTS

	2007 £'000	2006 £'000
Subsidiary undertakings	35,541	16,543
Equity securities	4,179	-
Loan note	683	-
	40,403	16,543

Equity securities represents a 10% interest in the ordinary share capital of Columbia Formation Group (Ireland) Limited, a company registered in the Republic of Ireland. It is a holding company for two major property developments in Ireland.

The loan note in Columbia Formation Group (Ireland) Limited is due to be redeemed from the second anniversary of issue or when the underlying land value reaches a prescribed value. No interest accrues on the loan note until the second anniversary of its issue. After this time, interest is accrued at the rate of 10% per annum.

5. INVESTMENTS *continued*

PRINCIPAL GROUP INVESTMENTS

The parent company and the Group have investments in the following subsidiary undertakings, all of which are wholly owned (except O. J. Kilkenny & Co. Limited which is 90% owned), which principally affected the profits or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity
Professional Services		
Formation Sports Capital Limited (formerly Capital Sports Solutions Limited)	England	Financial brokerage
Kingsbridge Asset Management Limited	England	Wealth management
O. J. Kilkenny & Co. Limited	England	Accountancy and taxation services
Proactive Sports Management Limited	England	Representation
Proactive Sports Management USA Inc	USA	Representation
Property Development and Investment		
Formation Design & Build Limited	England	Property project management
Formation Architectural Design Limited	England	Architectural design

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

Subsidiary undertakings	£'000
Cost	
At 1 September 2006	30,544
Acquisition of subsidiary undertakings	21,356
Disposal of subsidiary undertakings	(2,358)
At 31 August 2007	**49,542**
Provision for impairment	
At 1 September 2006 and 31 August 2007	**14,001**
Net book value	
At 31 August 2007	**35,541**
At 31 August 2006	16,543

6. DEBTORS

	2007 £'000	2006 £'000
Trade debtors	**1,381**	-
Amount owed by group undertakings	**199**	4
VAT	**72**	31
Other debtors	**631**	40
Prepayments and accrued income	**28**	106
Deferred tax asset	**155**	50
	2,466	231

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Bank loans and overdraft	**-**	653
Trade creditors	**596**	201
Amounts owed to group undertakings	**1,743**	5,629
Other taxation and social security	**23**	27
Contingent and deferred acquisition consideration	**2,479**	-
Amounts payable under finance leases	**28**	4
Accruals and deferred income	**563**	290
	5,432	6,804

Bank overdrafts are repayable on demand and have been secured by debentures from Formation Group PLC and certain of the Company's subsidiary undertakings as well as an inter company cross guarantee between these companies.

8. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2007 £'000	2006 £'000
Contingent and deferred acquisition consideration	**1,440**	-
Amounts payable under finance leases	**-**	28
	1,440	28

The Company has a £1,500,000 rolling credit facility which was taken out on 5 May 2006. There were no drawings on this facility at the year end. This facility ceases on 31 August 2009. The facility have been secured by debentures from Formation Group PLC and certain of the Company's subsidiary undertakings as well as an inter company cross guarantee between these companies.

9. DEFERRED TAXATION

	Deferred taxation asset £'000
At 1 September 2006	50
Transfer to profit and loss account	(11)
Transfer from option reserve	116
At 31 August 2007	**155**

Deferred tax asset provided is analysed as follows:

	2007 £'000	2006 £'000
Accelerated capital allowances	**11**	12
Other timing differences	**-**	7
Share options	**144**	31
	155	50

10. SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised		
300,000,000 ordinary shares of 1p each (2006 – 170,000,000)	3,000	1,700
Allotted and called-up		
205,772,960 ordinary shares of 1p each (2006 – 126,361,196)	**2,058**	1,264

	£'000
At 1 September 2006	1,264
Issue of ordinary shares (70,588,235 ordinary shares of 1p at 20.75p per ordinary share)	706
Issue of ordinary shares (8,823,529 ordinary shares of 1p at 17.00p per ordinary share)	88
At 31 August 2007	**2,058**

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

SHARE CAPITAL TO BE ISSUED

In August 2007, the Company acquired O. J. Kilkenny & Co. Limited. Part of the consideration was satisfied by the issue of 2,242,152 new shares in the Company with a value of £500,000. These shares were allotted in September 2007.

Options have been granted under the following schemes to subscribe for ordinary shares of the Company as follows:

Scheme	Number of shares under option	Subscription price per share	Exercise period
Unapproved share option scheme	1,000,000	7.13p	12 December 2006 to 11 December 2013
Enterprise management incentive plan	112,000	25.00p	16 May 2004 to 15 May 2011
Enterprise management incentive plan	1,300,000	7.13p	12 December 2006 to 11 December 2013
Non Executive plan	1,000,000	7.13p	12 December 2006 to 11 December 2013
Unapproved share option scheme	400,000	7.13p	9 December 2007 to 8 December 2014
Unapproved share option scheme	1,000,000	8.13p	2 February 2008 to 1 February 2015
LTIPS	1,254,545	-	1 September 2010 to 20 June 2017

11. RESERVES

	Treasury shares £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 September 2006	(138)	694	61	3,796	4,316	8,729
Profit for the year	-	-	-	-	10,571	10,571
Share options	-	-	-	108	-	108
Acquisition of own share capital	(751)	-	-	-	-	(751)
Issue of shares	200	-	-	-	-	200
Issue of new share capital	-	1,412	-	13,941	-	15,353
At 31 August 2007	**(689)**	**2,106**	**61**	**17,845**	**14,887**	**34,210**

TREASURY SHARES
Treasury shares represents 3,659,119 ordinary shares of 1p each in the share capital of the Company.

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

12 FINANCIAL COMMITMENTS

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

	Land and buildings	
	2007	2006
	£'000	£'000
Expiry date		
- between two and five years	**29**	25
- after five years	**-**	65
	29	90

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

13. PENSION ARRANGEMENTS

The Company makes pension contributions to the personal pension plans of certain full-time employees. The pension cost charge for the year amounted to £163,000 (2006 - £120,000).

14. CONTINGENT LIABILITIES

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

WHITECHAPEL PROPERTY FUND LIMITED ("WHITECHAPEL")

Whitechapel issued £5.4 million of loan notes to the Group's clients on 28 February 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes will 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 Company is entitled to a share of the residual profits of the related property development. The Company has underwritten half of the value of the loan and associated interest. The maximum liability in relation to this is £4.0 million.

ALDGATE EAST PROPERTY COMPANY LIMITED ("ALDGATE")

Aldgate issued £19.78 million of junior unsecured loan notes and subordinated junior unsecured loan notes to clients introduced by the Group on 31 August 2007. The proceeds of these loan notes were lent to a property developer to part fund a property development, with investors receiving a fixed compounded return. The loan notes will 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. The Company has underwritten half of the value of the junior unsecured loan notes and associated interest. The maximum liability in relation to this is £11.6 million.

The fair value of these financial assets and guarantees is considered to be nil at 31 August 2007.

NOTES

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Formation Group PLC

Annual report and financial statements for the year ended 31 August 2007

Registered number: 4145632

Auditors
Grant Thornton UK LLP
4 Hardman Square, Spinningfields
Manchester M3 3EB

Solicitors
DLA
101 Barbirolli Square
Manchester M2 3DL

Nominated Adviser & Broker
WH Ireland Limited
11 St. James's Square
Manchester M2 6WH

Registrars
Equinity
The Causeway, Worthing
West Sussex BN99 6DA

Formation Group PLC
2 Hollins House, 329 Hale Road
Hale Barns, Cheshire WA15 8TS

Tel: +44 (0) 161 980 1210
Fax: +44 (0) 161 980 0791
Email: mail@formationgroupplc.com
Web: www.formationgroupplc.com