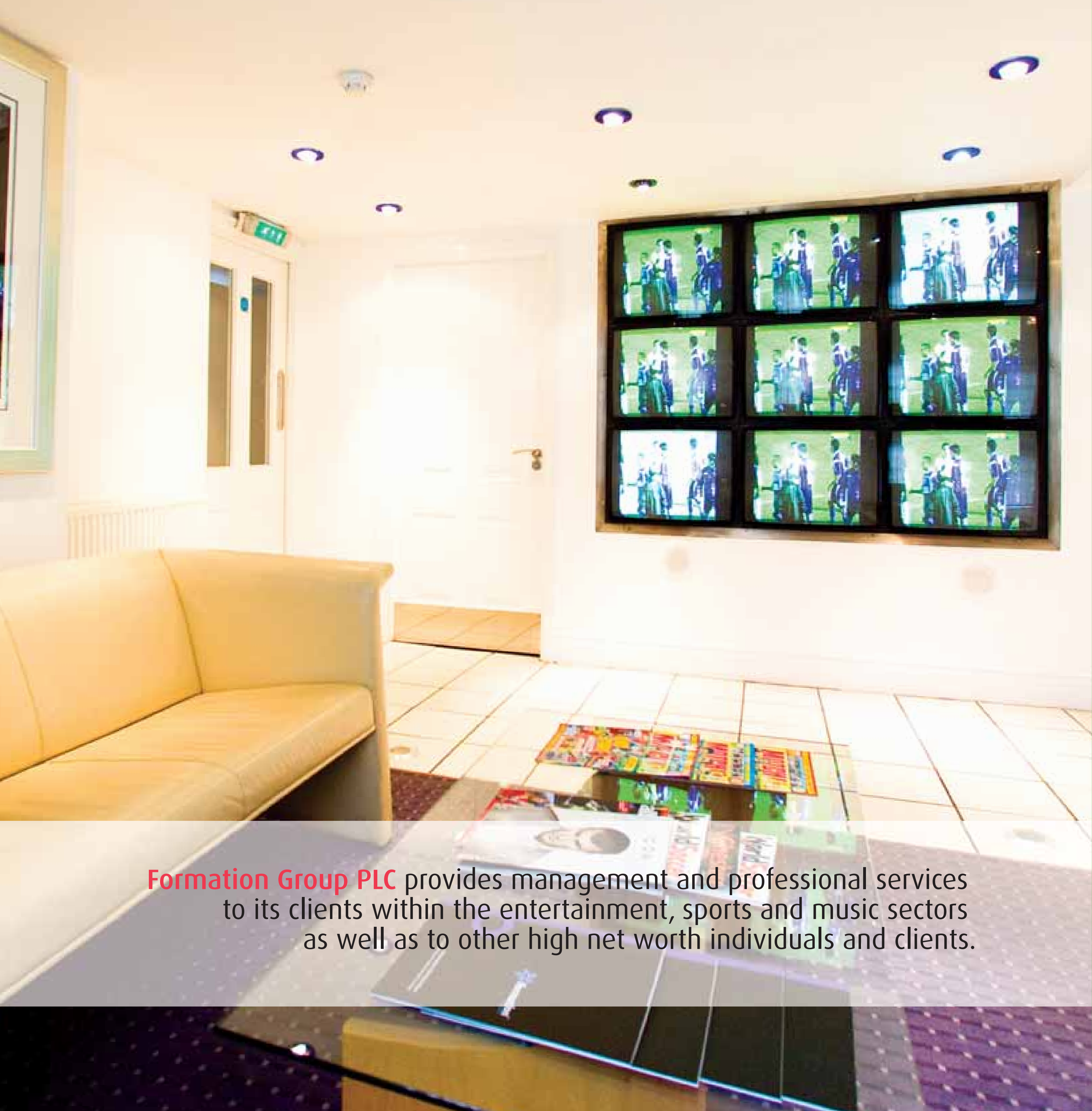
Interim Report 2009

formation
GROUP PLC



Formation Group PLC provides management and professional services to its clients within the entertainment, sports and music sectors as well as to other high net worth individuals and clients.

Interim Results for the Six Months ended 28 February 2009

Formation Group PLC provides management and professional services to its clients within the entertainment, sports and music sectors as well as to other high net worth individuals and clients.

These services include accountancy, construction management, representation, sports finance broking and wealth management.

Highlights

Revenue from continuing operations of £18.8 million (2008: £12.8m)

Operating profit from continuing operations of £2.0 million (2008: £1.7m)

The Group continues to trade in line with management's expectations and the board remains confident of the Group's prospects for the remainder of the year

Chairman's Statement

I am pleased to report the Group's results for the six months ended 28 February 2009.

Once again it has been another busy period for the Group with challenges faced, and successes celebrated, in almost equal measure.

Results from most continuing businesses are strong with our specialist music, sport and entertainment accountancy practice; O J Kilkenny & Co Limited continuing to expand its client base on a month by month basis. Similarly, our talent management business; James Grant Media Limited continues to represent some of the UK's very best TV and Radio talent with clients at the forefront of hit shows such as "X Factor", "Britain's Got Talent", "Beat the Star", "Dancing On Ice" and "I'm a Celebrity Get Me Out of Here!" In 2008, we had clients involved in 6 of the 13 most viewed TV programmes across all genres in the UK and representation in 5 of the top 6 rated shows in the entertainment genre.

The Administration Order in relation to Heritable Bank PLC, first detailed within our Preliminary announcement in November 2008, resulted in uncertainty over a contingent underwriting liability. The Group's current maximum liability under this arrangement is £11.6 million, a sum previously disclosed in our financial accounts. However, we understand that a dialogue is taking place between Heritable's Administrator, Ernst & Young LLP and Julius Properties Limited, the Developer of the Aldgate East site. We are advised by Julius that negotiations with the Administrators are continuing, in the meantime, we continue to liaise with our clients who have invested in this development.

Despite the general economic pressures prevailing at this time the board remains confident of the Group's prospects for the future. Due to the challenging circumstances faced within the banking sector, with debt in shorter supply now than at any other time during the last 20 years, the board believe that it is necessary to focus on organic growth ahead of that afforded through potential debt funded acquisitions.

Our core management and services businesses within the entertainment, sport and music sectors are trading strongly which is testament to our own people and the talent we are fortunate to represent.

May I take this opportunity to thank our hugely talented staff. They are a very dedicated group of people firmly committed to serving the best interests of our valued clients. Their efforts continue to be recognised and are very much appreciated.

Although the current economic environment presents challenges for the Group, the board believe that there are promising future opportunities for the Group and therefore remain encouraged by the Group's prospects. As announced on 26 May 2009, I can confirm that the Group has received indications of interest from Gresham Private Equity ("Gresham") relating to certain parts of the Formation business. Discussions are ongoing and whilst there can be no guarantee that any agreement will be reached, the Group has entered into a period of exclusivity with Gresham. No interest has been expressed in the Company as a whole. A further announcement will be made in due course as required.

JB Lawrence

John Lawrence MBE
Non-Executive Chairman

27 May 2009

Chief Executive Officer's Report

Revenue for the period was £18.8 million from continuing operations (2008: £12.8 million) and operating profit from continuing operations was £2.0 million (2008: £1.7 million). Basic earnings per share from continuing activities were 0.58 pence (2008: 0.59 pence).

In line with the Group's current dividend policy, no interim dividend is being declared. However, the Directors will review the position at the time of the Preliminary results for the year ending 31 August 2009.

Management Services Division

Our Management Services division contains three businesses; James Grant Media Limited, Proactive Sports Management Limited (trading as Formation Sports Management) and Proactive Sports Management USA Inc. All three businesses provide career management and representation advice to entertainers and athletes within the entertainment and sports sectors. For many of our clients our services extend beyond commercial and endorsement contract negotiation to a variety of additional services.

Revenue for the period under review was £4.0 million (2008: £1.5 million) and operating profit was £1.9 million (2008: £0.5 million).

Talent Management – James Grant Media Limited ("JGM")
JGM has now been part of the Group for over 12 months and has been a successful acquisition for the Group. The business continues to attract the UK's best television and radio talent. The business has a very selective client recruitment ethos and will only represent the interests of clients it truly believes it can add value to from both commercial and career management perspectives. This ethos is at the very core of the business and is one of the reasons why JGM are so respected in their industry.

However, with the well publicised challenges broadcast networks are facing, it would be foolish to become complacent and whilst we represent the interests of some of the country's most successful entertainment presenters and celebrities, we are both mindful and respectful of the external pressures on broadcasters. The television companies' understandable focus upon entertainment content as opposed to more expensive dramatisations means our client roster is very well positioned to meet their production objectives. With early new 2009 series viewing numbers of core entertainment productions such as Britain's Got Talent reaching new heights, this re-focus appears to be paying dividends. We continue to work very closely with all our clients to ensure they maximise both their talent and their commercial value whilst at the same time, working with our broadcast partners to help meet their production values and needs.

In recent months, the business has also helped to develop a digital strategy through which to further commercialise the brand equity our clients have by monetising online media opportinites for them. We also hope to extend this proposition to non-clients of the Group over time. With digital advertising spend on the increase, the aggregated web portal we have designed in conjunction with our talent clients – www.iviva.com – will, we hope, become the online destination venue for a number of client commercial opportunities. This development is in its infancy and we hope to report further as we progress.

Sports Management – Proactive Sports Management (UK and USA)
The UK sports business has very recently been restructured in order to align the reporting and operational responsibilities across both the UK and USA companies. As part of this re-structuring, we have recently announced the appointment of Lyle Yorks to head this business and we are actively seeking to appoint a UK Managing Director to support our growth ambitions. In addition, we are robustly pursuing through the courts the recovery of outstanding material debts in relation to associated companies of former clients and a former employee.

The UK football market is not without its representation challenges, mainly due to the high proportion of overseas players joining Premier League clubs. The USA business continues to develop and become a material part of the Group and offers further growth opportunities going forward.

Professional Services Division

Our Professional Services division contains a number of subsidiary companies including; O J Kilkenny & Co Limited, Formation Asset Management Limited, Formation Wealth Solutions Limited, Formation Sports Capital Limited, Formation Design & Build Limited and Formation Architectural Design Limited.

Revenue for the period under review was £14.9 million (2008: £11.3 million) and operating profit was £0.9 million (2008: £1.8 million).

The reduction in operating profit is largely driven by the situation arising out of the Aldgate East development with construction works halted (and therefore contracted construction management fee levels on hold) pending the outcome of the Administration of Heritable Bank PLC.

Accountancy – O J Kilkenny & Co Limited ("OJK")
OJK continues to grow organically and has attracted a number of new clients since the turn of the year. The business has further streamlined back office services since its acquisition in August 2007 and we are seeing faster turn-around times in transferring work in progress to debtors and ultimately an enhanced cash collection position.

We have also harmonised management service agreements during the period and further incentivised the business's directors which is an essential ingredient in such a people orientated business.

The core accountancy services we perform; accounts preparation, tax advice and, in respect of our music sector clients; royalty examinations and music tour accounts management, continue to flourish and as one of the leading specialist accountancy practices in our chosen sectors, this business has not yet experienced any slow down linked to the wider economy. OJK's year-on-year performance continues to improve.

Wealth Management – Formation Asset Management Limited & Formation Wealth Solutions Limited
Our Asset Management businesses have come under increasing pressure in recent months. This is almost exclusively due to the economic downturn and a general loss of confidence within the financial services sector. Our strategic move to a business model which seeks to charge a percentage based fee for funds under management as opposed to traditional product commissions has always been predicated on volume. Inevitably this will come under greater scrutiny as prospective clients retrench. The need for this business to ensure its cost base is commensurate with its projected incomes will also need continued and careful assessment going forward.

Sports Finance Brokerage – Formation Sports Capital Limited
This business has made a good start to the year and is ahead of its financial budget. The volume of enquiries from football clubs seeking to accelerate their cash flow from contracted income streams has also increased and whilst the credit approval process has understandably taken a little longer, the number of transactions approved by our preferred facility providers has remained broadly consistent. The Premier League is a great global product and the ability of broadcast rights owners to effectively underwrite cash flow acceleration is important in the quest for clubs to develop and expand.

Construction Management – Formation Design & Build Limited and Formation Architectural Design Limited
As the Chairman has detailed earlier in this report, the key challenge affecting this business is the outcome linked to the Administration of Heritable Bank PLC. Whilst it is our belief that the Administrator has some months to still resolve the banks financial situation, it is hoped that the funding situation will be resolved before the first anniversary of their appointment. The effect on this business is that in the absence of on-going development funding, works at Aldgate East have ceased which as construction manager has obviously had a knock-on effect on the business's profitability – a situation we have made provision for but hope to reverse over the second half of the year.

On a positive note, the development undertaken at Commercial Road, London E1 (known as Whitechapel) remains on course to complete in July 2009 and the sales position is also encouraging with contracts exchanged on all 136 residential units, 6 live/work units and 1 retail unit having a combined sales value of approximately £44 million. This is projected as sufficient to discharge all bank borrowings and the investment return owing to the Whitechapel Property Fund. There is also keen interest in the remaining car parking spaces and freehold ground rents.

Risks and Uncertainties

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

We have previously disclosed the material challenges we face within the body of this report. Whilst no business is immune to the vagaries of the current economic outlook, our business has continued reason to be cautiously optimistic. Whilst the situation arising out of Heritable Bank's demise has cast uncertainty over certain aspects of our business, we remain optimistic that a mutually agreeable solution can be reached with the Bank's Administrator in order for us to conclude the development and realise the client and Group profits we envisage.

As a business which is people centric, our people are understandably at the heart of what we provide for our clients and we remain aware of the need to continue to reward and recognise the often outstanding performance our staff provide. We are not complacent in this area and our investment in our people and in the processes in place which assist them is testament to the importance we place on this key area of our business.

The risks associated with a majority shareholder have been well documented in recent reports and we acknowledge that such a high percentage of shares within the control of a single party has its challenges, particularly when considering the sentiment of institutional fund managers towards small cap businesses in the current financial climate.

Outlook

We have continued to evolve and grow the business and whilst this has undoubtedly become a harder task from an acquisition perspective, we remain clear on the needs of our businesses and confident in their individual ability to prosper. Our desire is to extract the underlying shareholder value that we feel lies within the Group. This will be at the heart of the business's focus over the coming months.

Neil Rodford
Chief Executive Officer

27 May 2009

The interim accounts have been published and appear on the company's website: www.formationgroupplc.com

Consolidated Income Statement
For the six months ended 28 February 2009

	Note	**6 months ended 28 Feb. 2009 (Unaudited) £'000**	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Continuing operations				
Revenue	2	**18,845**	12,761	34,941
Cost of sales		**(10,764)**	(6,167)	(19,062)
Gross profit		**8,081**	6,594	15,879
Administrative expenses		**(6,035)**	(4,932)	(12,399)
Operating profit from continuing operations	2	**2,046**	1,662	3,480
Investment income		**52**	104	195
Finance costs		**(269)**	(3)	(321)
Profit before taxation		**1,829**	1,763	3,354
Taxation	4	**(546)**	(530)	(1,223)
Profit for the financial period from continuing operations		**1,283**	1,233	2,131
Discontinued operations				
Profit for the financial period from discontinued operations	3	**-**	621	621
Profit for the financial period		**1,283**	1,854	2,752
Attributable to:				
Equity holders of parent		**1,261**	1,826	2,703
Minority interests		**22**	28	49
		1,283	1,854	2,752
Earnings per share				
From continuing operations				
Basic	6	**0.58p**	0.59p	1.00p
Diluted	6	**0.57p**	0.58p	0.97p
From discontinued operations				
Basic	6	**0.00p**	0.30p	0.29p
Diluted	6	**0.00p**	0.29p	0.29p
From continuing and discontinued operations				
Basic	6	**0.58p**	0.89p	1.29p
Diluted	6	**0.57p**	0.87p	1.26p

Consolidated Statement of Recognised Income and Expense

For the six months ended 28 February 2009

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Profit for the financial period	**1,283**	1,854	2,752
Exchange gain on foreign currency translation of foreign operations	**103**	9	40
Total recognised income and expenses for the financial period	**1,386**	1,863	2,792
Attributable to:			
Equity holders of the parent	**1,364**	1,835	2,743
Minority interests	**22**	28	49
	1,386	1,863	2,792

Consolidated Balance Sheet
As at 28 February 2009

	Note	**28 Feb. 2009 (Unaudited) £'000**	29 Feb. 2008 (Unaudited) £'000	31 Aug. 2008 (Audited) £'000
Non-current assets				
Goodwill		**47,268**	47,434	47,409
Other intangible assets		**15**	22	18
Property, plant and equipment		**307**	320	330
Non-current financial assets		**4,862**	4,862	4,862
Deferred tax asset		**135**	21	135
		52,587	52,659	52,754
Current assets				
Inventories		**1,021**	2,770	2,222
Trade and other receivables		**9,252**	5,740	6,978
Cash and cash equivalents		**2,764**	2,191	4,028
		13,037	10,701	13,228
Total assets		**65,624**	63,360	65,982
Current liabilities				
Trade and other payables		**(8,180)**	(8,711)	(11,562)
Current income tax liabilities		**(1,626)**	(1,519)	(1,503)
Obligations under finance leases		**(9)**	(34)	(9)
Bank overdrafts and loan		**(4,250)**	-	(1,833)
		(14,065)	(10,264)	(14,907)
Net current liabilities/assets		**(1,028)**	437	(1,679)
Non-current liabilities				
Trade and other payables		**(4,033)**	(5,336)	(3,605)
Obligations under finance leases		**(5)**	(11)	(8)
Bank loans		**(3,281)**	(6,000)	(4,010)
		(7,319)	(11,347)	(7,623)
Total liabilities		**(21,384)**	(21,611)	(22,530)
Net assets		**44,240**	41,749	43,452
Equity				
Share capital		**2,205**	2,080	2,205
Share capital to be issued		**-**	2,344	-
Share premium account		**2,106**	2,106	2,106
Treasury shares		**(102)**	(794)	(102)
Capital redemption reserve		**61**	61	61
Merger reserve		**20,326**	18,108	20,326
Currency reserve		**153**	19	50
Share option reserve		**395**	273	324
Other reserve		**(307)**	-	-
Retained earnings		**19,403**	17,233	18,142
Total equity attributable to the parent's shareholders		**44,240**	41,430	43,112
Minority interests		**-**	319	340
Total equity	8	**44,240**	41,749	43,452

Consolidated Cash Flow Statement
For the six months ended 28 February 2009

	Note	**6 months ended 28 Feb. 2009 (Unaudited) £'000**	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Operating activities				
Cash generated by operations	7	**306**	24	3,153
Income taxes paid		**(449)**	(194)	(1,036)
Interest paid		**(289)**	(3)	(219)
Net cash (outflow)/inflow from operating activities		**(432)**	(173)	1,898
Investing activities				
Interest received		**52**	104	194
Proceeds on disposal of property, plant and equipment		**1**	-	-
Purchases of property, plant and equipment		**(36)**	(40)	(113)
Deferred consideration paid		**(2,660)**	(678)	(1,190)
Acquisition of subsidiaries		**-**	(9,403)	(9,418)
Cash acquired with subsidiaries		**-**	2,688	2,688
Acquisition expenses		**-**	(595)	(878)
Net proceeds on disposal of subsidiary companies		**-**	1,015	1,007
Net cash used in investing activities		**(2,643)**	6,909	(7,710)
Financing activities				
Dividends paid		**-**	(235)	(235)
Purchase of own shares		**-**	(104)	(207)
Net proceeds from sale of own shares		**-**	-	828
New loans		**2,000**	6,000	6,000
Loan repayments		**(312)**	-	(157)
Repayments of obligations under finance leases		**(3)**	(8)	(34)
Net cash generated by financing activities		**1,685**	5,653	6,195
Net (decrease)/increase in cash and cash equivalents		**(1,390)**	(1,429)	383
Cash and cash equivalents at the beginning of the period		**4,028**	3,605	3,605
Effect of foreign exchange rate changes		**126**	15	40
Cash and cash equivalents at end of the period		**2,764**	2,191	4,028

Notes to the Interim Information
For the six months ended 28 February 2009

1. Basis of preparation

The Group's interim results for the six months ended 28 February 2009 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those adopted in the preparation of the annual financial statements for the year ended 31 August 2008.

The comparative figures are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group within the meaning of section 240 of the Companies Act 1985.

Statutory financial statements for the year ended 31 August 2008 have been filed with the Registrar of Companies for England and Wales and have been reported on by the Group's auditors. The report of the auditors was not qualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2. Segment information

		6 months ended 28 Feb. 2009 (Unaudited)		6 months ended 29 Feb. 2008 (Unaudited)		Year ended 31 Aug. 2008 (Audited)
	Revenue £'000	**Profit from continuing operations £'000**	Revenue £'000	Profit from continuing operations £'000	Revenue £'000	Profit from continuing operations £'000
By class of business:						
Management services	**3,963**	**1,942**	1,505	482	5,989	1,664
Professional services	**14,882**	**935**	11,256	1,801	28,952	3,245
	18,845	**2,877**	12,761	2,283	34,941	4,909
Unallocated corporate expenses		**(831)**		(621)		(1,429)
Operating profit from continuing operations		**2,046**		1,662		3,480

Notes to the Interim Information *continued*
For the six months ended 28 February 2009

3. Results of discontinued operations

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

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Profit on disposal of discontinued operations	**-**	621	621
Attributable tax expense	**-**	-	-
Profit on disposal of discontinued operations	**-**	621	621
Profit attributable to discontinued operations	**-**	621	621

4. Taxation

The taxation charge at 30.0% of profit before taxation, is based on the estimated effective rate of tax on earnings for the full year ending 31 August 2009.

5. Dividends

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
No dividend paid in the period (2008 - 0.115 pence per share)	-	235	235

6. Earnings per share

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

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Profit for the period:			
Basic and diluted earnings – continuing operations	**1,283**	1,233	2,131
Basic and diluted earnings – discontinued operations	**-**	621	621
Basic and diluted earnings – continuing and discontinued operations	**1,283**	1,854	2,752
	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of shares:			
Basic	**220,515**	207,929	214,017
Diluted	**224,827**	212,741	218,829

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

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Profit for the year	**1,283**	1,854	2,752
Profit on disposal of discontinued operations	**-**	(621)	(621)
Taxation	**546**	530	1,223
Investment income	**(52)**	(104)	(195)
Finance costs	**269**	3	321
Depreciation of property, plant and equipment	**58**	54	115
Amortisation of intangible assets	**4**	4	8
Share option charge	**72**	58	128
Loss on sale of property, plant and equipment	**-**	8	9
Operating cash flows before movements in working capital	**2,180**	1,786	3,740
Decrease/(increase) in inventories	**1,201**	(478)	(343)
(Increase)/decrease in receivables	**(2,274)**	1,608	161
Decrease in payables	**(801)**	(2,892)	(405)
Cash generated by operations	**306**	24	3,153

8. Statement of changes in total equity

	6 months ended 28 Feb. 2009 (Unaudited) £'000	6 months ended 29 Feb. 2008 (Unaudited) £'000	Year ended 31 Aug. 2008 (Audited) £'000
Opening total equity	**43,452**	37,823	37,823
Dividends	**-**	(235)	(235)
Profit for the period	**1,261**	1,826	2,703
Issue of new share capital	**-**	2,344	2,344
Acquisition of own share capital	**-**	(104)	(207)
Sale of own shares	**-**	-	828
Minority share of profit for the period	**22**	28	49
Acquisition of minority interest	**(670)**	-	-
Share based payment charge	**72**	58	128
Impact of deferred tax on share based payment charge	**-**	-	(21)
Gain on foreign currency translation	**103**	9	40
Closing total equity	**44,240**	41,749	43,452

Independent review report to Formation Group plc

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 28 February 2009 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 8. We have read the other information contained in the half yearly financial report which comprises only the Chairman's Statement and Chief Executive Officer's Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with the basis of preparation.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 28 February 2009 is not prepared, in all material respects, in accordance with the basis of accounting described in note 1.

Grant Thornton UK LLP
Chartered Accountants, Manchester

27 May 2009

Formation Group PLC

Registered number: 04145632

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