

Interim Report 2012



formation
GROUP PLC



Interim Results for the Six Months ended 29 February 2012

The Group is pleased to announce its interim results for the six months ended 29 February 2012. Formation Group is now predominately a property development and project management company providing professional services to its clients within this sector.

Highlights

Revenue from continuing operations of £1.12 million (2011: £2.34m).

Operating loss from continuing operations of £0.480 million (2011: £0.185m loss).

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

Cash position as at 29 February 2012 £0.078 million (31 August 2011 £0.580m).

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Chairman's Statement

I am pleased to report the Group's results for the six months ended 29 February 2012.

The Group is now focused on property development, project management and related services.

As announced on 18 January 2012, I am pleased to confirm that, following completion of the disposal, to a national housebuilder, of the mixed use development site at No 1 Commercial Street, London E1 by Julius Properties Limited ("JPL"), the Group has been released from the contingent liability relating to Formation's guarantee to assist JPL in repaying Aldgate East Property Company Limited a maximum of £11.55 million in respect of capital and interest on loan notes.

In addition, after receipt of the deferred element of the consideration, JPL will be able to substantially repay the loans provided by JV Finance Ventures Limited in which Formation has a 36.88% equity interest. This shareholding is currently valued on the balance sheet at £6.23 million. The deferred consideration due to JPL is secured by property, with repayment due in equal tranches over a six month period commencing in January 2014.

As announced on 22 February 2012, the Group is in the process of identifying an independent non executive chairman. Until a suitable candidate has been appointed I will continue to act as Chief Executive and interim Chairman. Shareholders will be updated in this regard in due course.

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



David Kennedy

Chief Executive Officer and Interim Chairman

31 May 2012



Chief Executive Officer's Report

Revenue for the period was £1.12 million from continuing operations (2011:£2.34 million) and operating losses from continuing operations were £0.480 million (2011:£0.185 million loss).

In line with the Group's current dividend policy, no interim dividend is being declared. However the Directors will review the position at the time of the Preliminary results for the year ending 31 August 2012.

Formation Design & Build Limited

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

Proactive Sports Management Limited

The Group acquired Proactive Sports Management Limited (a previously owned company), primarily to assist in the conduct of its ongoing sports related litigation cases. To date there has been some satisfactory progress on this front. The company previously managed various sports related personnel, but no longer does so. The ultimate intention is to withdraw from this business at the earliest possible opportunity.

F G (Bristol) Limited

This development comprises 15 apartments and 3 commercial units which were originally developed for sale. Due to the recent economic crisis it was considered more appropriate to furnish the units and market for rent. The residential element is now fully let with strong interest being expressed for the commercial units.

F G (Bradford) Limited

This development comprises 24 Apartments and 1 Commercial unit. The scheme was originally built for sale but the recent economic environment has persuaded the company to rent the properties instead in order to fund interest repayments. To date take up on the units has been very encouraging.



Chief Executive Officer's Report *continued*

Risks and Uncertainties

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

We have over the last year removed the two large contingent liabilities, i.e. Whitechapel and Aldgate East that had cast uncertainty over the Group's future. We have also continued to make good progress on the various litigation issues surrounding Proactive Sports Management Limited.

Whilst our current workload on the construction and project management front is much reduced we remain cautiously optimistic for the future. We have stream lined the business and look forward to growing the company both organically and, in due course, through investment with the benefit of future cash receipts from JV Finance Ventures Limited.

As noted in the final results announced on 16 February 2012, the ability of the Group to continue trading as a going concern is dependent on the realisation of cash from the Whitechapel development and new contracts being won in the next twelve months. There is a significant level of uncertainty over the ability of the group to continue as a going concern however, we have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

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

Under the AIM Rules, the New Loan constitutes a related party transaction given the Lender's relationship with David Anthony Kennedy who, together with certain of his related parties, holds a majority shareholding in Formation. In accordance with the AIM Rules, the directors independent to the transaction are required to consider, having consulted with the Company's Nominated Adviser, that the terms of the transaction are fair and reasonable.

The independent directors consider, having consulted with Zeus Capital, that the terms of the transaction are fair and reasonable insofar as shareholders of Formation are concerned.

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

Appointment of Auditors

Grunberg & Co Chartered Accountants have been appointed as auditors to the Group.



Outlook

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

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

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

David Kennedy

Chief Executive Officer and Interim Chairman

31 May 2012

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

Consolidated Income Statement

For the six months ended 29 February 2012

	Note	6 months ended 29 Feb. 2012 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000
Continuing operations				
Revenue	2	1,119	2,341	6,024
Cost of sales		(1,067)	(1,724)	(5,228)
Gross profit		52	617	796
Administrative expenses		(532)	(802)	(1,747)
Operating loss from continuing operations	2	(480)	(185)	(951)
Share of loss from equity accounted investment		-	-	(534)
Finance costs		(1)	-	(1)
(Loss)/profit before taxation and exceptional items		(481)	(185)	(1,484)
Exceptional Items	7	(10)	-	(10,444)
Loss before taxation		(491)	(185)	(11,928)
Taxation	4	-	-	300
Loss for the financial period from continuing operations		(491)	(185)	(11,628)
Discontinued operations				
Loss for the financial period from discontinued operations	3	(46)	(102)	(350)
Loss for the financial period		(537)	(287)	(11,278)
Attributable to:				
Owners of parent		(537)	(287)	(11,278)
		(537)	(287)	(11,278)
Earnings per share				
From continuing operations				
Basic	5	(0.24p)	(0.09p)	(5.69p)
Diluted	5	(0.24p)	(0.09p)	(5.69p)
From discontinued operations				
Basic	5	(0.02p)	(0.05p)	0.17p
Diluted	5	(0.02p)	(0.05p)	0.17p
From continuing and discontinued operations				
Basic	5	(0.26p)	(0.14p)	(5.52p)
Diluted	5	(0.26p)	(0.14p)	(5.52p)

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

Consolidated Statement of Financial Position

As at 29 February 2012



	29 Feb. 2012 (Unaudited) £'000	28 Feb. 2011 (Unaudited) £'000	31 Aug. 2011 (Audited) £'000
Non-current assets			
Goodwill	-	10,805	-
Other intangible assets	2	3	2
Property, plant and equipment	47	22	16
Investments accounted for using the equity method	6,234	6,768	6,234
	6,283	17,618	6,252
Current assets			
Inventories	4,008	2,643	3,900
Trade and other receivables	302	1,131	1,667
Cash and cash equivalents	78	405	580
	4,388	4,179	6,147
Total assets	10,671	21,797	12,399
Current liabilities			
Trade and other payables	(910)	(1,220)	(1,884)
Current income tax liabilities	-	(338)	(440)
Bank overdrafts and loan	(4,269)	(3,219)	(4,046)
	(5,179)	(4,777)	(6,370)
Net current liabilities	(791)	(598)	(223)
Total liabilities	(5,179)	(4,777)	(6,370)
Net assets	5,492	17,020	6,029
Equity			
Share capital	2,205	2,205	2,205
Share premium account	2,106	2,106	2,106
Treasury shares	(602)	(602)	(602)
Capital redemption reserve	61	61	61
Merger reserve	-	11,265	-
Share option reserve	22	22	22
Retained earnings	1,700	1,963	2,237
Total equity attributable to the owners of the parent	5,492	17,020	6,029
Total equity	5,492	17,020	6,029

Consolidated Statement of Changes in Equity

For the six months ended 29 February 2012

	Called up share capital £'000	Share premium account £'000	Treasury shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Share option reserve £'000	Currency reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 September 2010	2,205	2,106	(602)	61	11,265	22	-	2,250	17,307
Share based payment charge	-	-	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-	-	-
Loss for the financial period	-	-	-	-	-	-	-	(287)	(287)
Other comprehensive income Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	(287)	(287)
Balance at 28 February 2011	2,205	2,106	(602)	61	11,265	22	-	1,963	17,020
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-	-	-
Profit for the financial period	-	-	-	-	-	-	-	274	274
Realisation of merger reserve on impairment of goodwill	-	-	-	-	(11,265)	-	-	-	(11,265)
Other comprehensive income Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 31 August 2011	2,205	2,106	(602)	61	-	22	-	2,237	6,029
Transactions with owners	-	-	-	-	-	-	-	-	-
Loss for the financial period	-	-	-	-	-	-	-	(537)	(537)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 29 February 2012	2,205	2,106	(602)	61	-	22	-	1,700	5,492

Consolidated Statement of Cashflows

For the six months ended 29 February 2012



	Note	6 months ended 29 Feb. 2012 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000
Operating activities				
Cash generated by operations	6	(238)	(1,156)	(1,687)
Income taxes paid		(440)	(5)	(126)
Interest paid		(1)	-	-
Net cash outflow from operating activities		(679)	(1,161)	(1,183)
Investing activities				
Interest received		-	-	1
Proceeds on disposal of property, plant and equipment		-	-	-
Purchases of property, plant and equipment		(46)	-	(1)
Deferred consideration paid		-	-	-
Purchase of Investments		-	-	-
Net cash used in investing activities		(46)	-	-
Financing activities				
New loans		223	1,280	2,107
Loan repayments		-	-	-
Net cash generated/(used in) by financing activities		223	1,280	2,107
Net increase/(decrease) in cash and cash equivalents		(502)	119	294
Cash and cash equivalents at the beginning of the period		580	286	286
Effect of foreign exchange rate changes		-	-	-
Cash and cash equivalents at end of the period		78	405	580

Notes to the Interim Information

For the six months ended 29 February 2012

1. Basis of Preparation

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 August 2011, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and on the same basis and using the same accounting policies as used in the financial statements for the year ended 31 August 2011. The interim financial statements have not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

2. Segment information

	6 months ended 29 Feb. 2012 (Unaudited) Profit from continuing operations £'000	Revenue £'000	6 months ended 28 Feb. 2011 (Unaudited) Profit from continuing operations £'000	Revenue £'000	Year ended 31 Aug. 2011 (Audited) Profit from continuing operations £'000
By class of business:					
Management services	-	-	75	(65)	62
Professional services	1,119	52	2,266	206	734
	<u>1,119</u>	<u>52</u>	<u>2,341</u>	<u>141</u>	<u>6,024</u>
		<u>(532)</u>		<u>(326)</u>	<u>(1,747)</u>
Unallocated corporate expenses		<u>(480)</u>		<u>(185)</u>	<u>(951)</u>
Operating loss from continuing operations					



3. Discontinued operations

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

	6 months ended 29 Feb. 2012 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000
(Loss)/profit from discontinued operations	(46)	21	350
Attributable tax expense	-	-	-
(Loss)/profit from discontinued operations	(46)	21	350
Loss on disposal of discontinued operations	-	(123)	-
(Loss)/profit attributable to discontinued operations	(46)	(102)	350

4. Taxation

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

5. Earnings per share

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

	6 months ended 29 Feb. 2012 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000
Profit for the period:			
Basic and diluted earnings – continuing operations	(491)	(185)	(11,628)
Basic and diluted earnings – discontinued operations	(46)	(102)	350
Basic and diluted earnings – continuing and discontinued operations	(537)	(287)	(11,278)
	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of shares:			
Basic	204,533	204,533	204,533
Diluted	204,533	204,533	204,533

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

	6 months ended 29 Feb. 2012 (Unaudited) £'000 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000 (Audited) £'000
Operating loss for the year from continuing operations	(480)	(185)	(951)
Operating (loss)/profit from disposal of discontinued operations	(46)	(102)	350
Amortisation of intangible assets	-	-	1
Loss on sale of fixed assets	-	-	9
Taxation	-	-	-
Depreciation of property, plant and equipment	5	14	12
Exceptional items (cash element)	-	-	166
	<hr/> (521)	<hr/> (273)	<hr/> (413)
Operating cash flows before movements in working capital			
Increase in inventories	(108)	(817)	(2,074)
Decrease in receivables	1,365	904	1,106
(Decrease) in payables	(974)	(970)	(306)
	<hr/> (238)	<hr/> (1,156)	<hr/> (1,687)

7. Exceptional Items

	6 months ended 29 Feb. 2012 (Unaudited) £'000	6 months ended 28 Feb. 2011 (Unaudited) £'000	Year ended 31 Aug. 2011 (Audited) £'000
Impairment charge - Proactive Sports Management Ltd	-	-	(20)
Impairment charge - Formation Design & Build Limited	-	-	(10,805)
Litigation income	-	-	381
Loss on disposal of fixed assets	(10)	-	-
	<hr/> (10)	<hr/> -	<hr/> (10,444)

Formation Group PLC

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