

Interim Report 2014



formation
GROUP PLC



Interim Results for the Six Months ended 28 February 2014

The Group is pleased to announce its interim results for the six months ended 28 February 2014. 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 £3.23 million (2013: £2.36m).

Operating loss from continuing operations of £0.145 million (2013: £0.072m loss).

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

Cash position as at 28 February 2014 £0.078 million (31 August 2013 £0.240m).

Post Period End Events

£1.59 million of the £6.8 million due received from J V Finance Ventures Limited.

Working capital loan of £100,000 fully repaid.

Appointment of Grant Thornton as group auditors.

Exchanged on acquisition site for development 161 Iverson Road, London.

Disposed of Treasury Shares for a cash consideration to Formation of £313,447.

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Chairman's Statement

I am pleased to report the Group's results for the six months ended 28 February 2014.

Since the period ended 28 February, 2014 Formation Group Plc has to date received £1.59 million of the £6.8 million anticipated to be repaid to it by June 2014 from its 36.88% equity interest in JV Finance Ventures Limited, loan provider to Julius Properties Limited at Aldgate. As announced on 28 February 2014, the Company still expects to receive the majority of the outstanding amount due by 30 June 2014.

The Group is pleased to announce that it has an increasing order book on project management contracts. The board believes that the resulting income streams from these contracts will help improve the Group's trading position going forward. Formation intends to utilise the proceeds from its JV investment to purchase development sites with a mixture of cash and bank funding. On 11th April, 2014, Formation announced the first of these development sites.

I am also pleased to report that progress is being made in the sourcing of a new non-executive chairman and an announcement is expected shortly.



David Kennedy
Non-Executive Chairman
31 May 2014



Chief Executive Officer's Report

Overview

Revenue for the period was £3.23 million from continuing operations (2013:£2.36 million) and operating losses from continuing operations were £0.145 million (2013:£0.072 million loss).

The increased revenue for the period is due mainly to the finishing of the Park Road London N8 and Salter Street London E14 projects and the start of 4 new projects (with Finchley Road being the substantially largest project) that the Group has managed in the recent past. Additionally, the Group is expecting to start another three to four projects in the second half of the current financial year.

The decrease in gross profit margin in the period is largely due to compensation issues on one of the recent projects.

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 2014.

Formation Design & Build Limited

The company continues to trade although at a modest level and retains a core shared base of personnel.

Formation Construction Limited

This company was formed in early 2012 to project manage construction work and has substantially increased its revenue in line with expectations. At present the company is managing three projects with an expectation that another three to four will be started in the second half of the current financial year.

FG (Bradford) & FG (Bristol) Limited

As previously announced Dunbar Assets plc have taken management of the properties at FG (Bristol) Limited and FG (Bradford) Limited with a view to selling the assets. The properties have been funded on a non-recourse basis and any subsequent disposal will be cash neutral for Formation. Further details are set out in notes 9 and 10 to the accounts.



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.

The Group's core activity is now Property Development & Project Management and in doing so has started to utilise the return of its JV investment funds to purchase and develop properties. These will provide further income streams from project management and projected profits from the eventual development and sale.

As announced on 13 May 2014, the Group's wholly owned subsidiary, Formation Design and Build Limited, has now repaid fully its working capital loan with the Kennedy Family Discretionary Settlement (the "Lender") for the purposes of additional working capital. As security for the loan, Formation 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. This security is now in the process of being released.

The board recognises the cash constraints of the business and continues to closely monitor and manage the working capital position of the Group.



Outlook

There have been many changes in the group structure over the recent past. We are now a property development and project management based Group. 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 objective but recognising that this will take time.

We have a confident view for the future borne out by:

- (i) Funds already received with the balance to be obtained over the coming months from the return of its J V investment.
- (ii) Increasing Project Management order book and anticipated future profits from developments. 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 2014

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

Consolidated Income Statement

For the six months ended 28 February 2014

	Note	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Continuing operations				
Revenue	2	3,228	2,359	5,849
Cost of sales		(2,987)	(2,055)	(5,284)
Gross profit		241	304	565
Administrative expenses		(386)	(376)	(805)
Operating loss from continuing operations	2	(145)	(72)	(240)
Share of profit from joint venture development		-	-	-
Finance costs		(28)	(31)	(34)
Loss before taxation and exceptional items		(173)	(103)	(274)
Exceptional Items	7	(0)	(0)	(113)
Loss before taxation		(173)	(103)	(387)
Taxation	4	-	-	-
Loss for the financial period from continuing operations		(173)	(103)	(387)
Discontinued operations				
(Loss)/profit for the financial period from discontinued operations	3	(2)	(64)	(18)
Loss for the financial period		(175)	(167)	(405)
Attributable to: Owners of parent		(175)	(167)	(405)
Earnings per share				
From continuing operations				
Basic	5	(0.085p)	(0.05p)	0.19p
Diluted	5	(0.085p)	(0.05p)	0.19p
From discontinued operations				
Basic	5	(0.005p)	(0.03p)	(0.01p)
Diluted	5	(0.005p)	(0.03p)	(0.01p)
From continuing and discontinued operations				
Basic	5	(0.09p)	(0.08p)	0.20p
Diluted	5	(0.09p)	(0.08p)	0.20p

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

Consolidated Statement of Financial Position

As at 28 February 2014



	Note	28 Feb. 2014 (Unaudited) £'000	28 Feb. 2013 (Unaudited) £'000	31 Aug. 2013 (Audited) £'000
Non-current assets				
Goodwill		-	-	-
Other intangible assets		-	-	1
Property, plant and equipment		286	3	7
Investments accounted for using the equity method	8	6,238	6,238	6,238
		6,524	6,242	6,246
Current assets				
Inventories	9	3,915	3,919	3,918
Trade and other receivables		687	1,243	1,951
Cash and cash equivalents		78	139	240
		4,680	5,301	6,109
Total assets		11,204	11,543	12,355
Current liabilities				
Trade and other payables		(1,087)	(1,019)	(2,073)
Current income tax liabilities		-	-	-
Bank overdrafts and loan	10	(4,302)	(4,297)	(4,292)
		(5,389)	(5,316)	(6,365)
Net current liabilities		(709)	(15)	(256)
Total liabilities		(5,389)	(5,316)	(6,365)
Net assets		5,815	6,227	5,990
Equity				
Share capital		2,205	2,205	2,205
Share premium account		2,106	2,106	2,106
Treasury shares		(602)	(602)	(602)
Capital redemption reserve		61	61	61
Merger reserve		-	-	-
Share option reserve		22	22	22
Retained earnings		2,023	2,435	2,198
Total equity attributable to the owners of the parent		5,815	6,227	5,990
Total equity		5,815	6,227	5,990

Consolidated Statement of Changes in Equity

For the six months ended 28 February 2014

	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 2012	2,205	2,106	(602)	61	-	22	-	2,603	6,395
Loss for the financial period	-	-	-	-	-	-	-	(167)	(167)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 28 February 2013	2,205	2,106	(602)	61	-	22	-	2,436	6,228
Loss for the financial period	-	-	-	-	-	-	-	(238)	(238)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 31 August 2013	2,205	2,106	(602)	61	-	22	-	2,198	5,990
Loss for the financial period	-	-	-	-	-	-	-	(175)	(175)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Balance at 28 February 2014	2,205	2,106	(602)	61	-	22	-	2,023	5,815

Consolidated Statement of Cashflows

For the six months ended 28 February 2014



	Note	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Operating activities				
Cash generated by operations	6	134	(249)	(134)
Income taxes paid		-	-	-
Interest paid		(28)	(31)	(34)
Net cash outflow from operating activities		106	(280)	(168)
Investing activities				
Interest received		-	-	-
Proceeds on disposal of property, plant and equipment		-	-	-
Purchases of property, plant and equipment		(279)	(2)	(8)
Deferred consideration paid		-	-	-
Purchase of Investments		-	-	-
Net cash used in investing activities		(279)	(2)	(8)
Financing activities				
New loans		10	12	7
Loan repayments		-	-	-
Net cash generated/(used in) by financing activities		10	12	7
Net increase/(decrease) in cash and cash equivalents		(162)	(270)	(169)
Cash and cash equivalents at the beginning of the period		240	409	409
Cash and cash equivalents at end of the period		78	139	240

Notes to the Interim Information

For the six months ended 28 February 2014

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 2013, 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 2013. The interim financial statements have not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

2. Segment information

	6 months ended 28 Feb. 2014 (Unaudited) Profit from continuing operations £'000		6 months ended 28 Feb. 2013 (Unaudited) Profit from continuing operations £'000		Year ended 31 Aug. 2013 (Audited) Profit from continuing operations £'000	
	Revenue £'000		Revenue £'000		Revenue £'000	
By class of business:						
Professional services	3,228	241	2,359	304	5,849	565
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	3,228	241	2,359	304	5,849	565
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Unallocated corporate expenses		(386)		(376)		(805)
Operating loss from continuing operations		(145)		(72)		(240)
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Notes to the Interim Information *continued*

For the six months ended 28 February 2014



3. Discontinued operations

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

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Loss discontinued operations	(2)	(64)	(18)
Attributable tax expense	-	-	-
Loss from discontinued operations	(2)	(64)	(18)
Loss on disposal of discontinued operations	-	-	-
Loss attributable to discontinued operations	(2)	(64)	(18)

4. Taxation

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

5. Earnings per share

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

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Profit for the period:			
Basic and diluted earnings – continuing operations	(173)	(103)	(387)
Basic and diluted earnings – discontinued operations	(2)	(64)	(18)
Basic and diluted earnings – continuing and discontinued operations	(175)	(167)	(405)
	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of shares:			
Basic	204,018	204,018	204,018
Diluted	204,018	204,018	204,018

Notes to the Interim Information *continued*

For the six months ended 28 February 2014

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

	6 months ended 28 Feb. 2014 (Unaudited) £'000 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000 (Audited) £'000
Operating loss for the year from continuing operations	(145)	(72)	(240)
Operating loss from disposal of discontinued operations	(2)	(64)	(18)
Amortisation of intangible assets	-	-	1
Loss on sale of fixed assets	-	-	-
Taxation	-	-	-
Depreciation of property, plant and equipment	-	1	3
Exceptional items (cash element)	-	-	-
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Operating cash flows before movements in working capital	(147)	(135)	(254)
Decrease in inventories	4	-	1
(Increase)/Decrease in receivables	1,264	567	(141)
Increase/(Decrease) in payables	(986)	(681)	373
Adjustments for exceptional items (note7)	-	-	(113)
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Cash used in by operations	135	(249)	(134)
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Notes to the Interim Information

For the six months ended 28 February 2013

7. Exceptional Items

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Impairment charge of other receivables	-	-	(87)
Loss on deconsolidation	-	-	(26)
Legal costs relating to litigation	-	-	-
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	(0)	(0)	(113)
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Notes to the Interim Information *continued*

For the six months ended 28 February 2014



8. Investments accounted for using the equity method

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Investment in JV Finance Ventures Limited	6,238	6,238	6,238
	6,238	6,238	6,238

In the year ending 2010, Formation Group PLC, in partnership with JV Finance Limited, have contributed through JV Finance Ventures Limited, a combined sum of £18.2 million, (Formation Group PLC's contribution of £6.7 million on terms as announced on 2nd September 2010) in order to settle with both Heritable Bank PLC's administrator and outstanding creditors, in order to secure the Aldgate site and the necessary warranties for completed construction works.

Formation Group PLC's percentage shareholding in JV Finance Ventures Limited is 36.88% and is based on Formation's percentage share of long term loans in JV Finance Ventures Limited of £6.7 million. On the basis that the loans are repayable in 10 years time and the percentage of the loan directly affects the shareholding, the loans have been treated as an investment in an associated undertaking and is accounted for under the equity method. Accordingly the investment in JV Finance Ventures Limited has been adjusted to the anticipated fair value of the sales proceeds less costs to sell. The fair value is based on the present value of the anticipated future cash flows due within one year.

9. Inventories

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Work in Progress	3,915	3,919	3,918
	3,915	3,919	3,918

The inventory is held at the lower of cost and net realisable value. There have been no write down of inventories or amounts recognised in the income statement during the year. The inventory is secured by Dunbar Assets PLC under non-recourse financing.

It should be noted that the entire value of inventories relates to discontinued operations.

Notes to the Interim Information *continued*

For the six months ended 28 February 2014

10. Bank overdrafts and loans

	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
Bank loan - term loan facility	(4,302)	(4,297)	(4,292)
	(4,302)	(4,297)	(4,292)
	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
On demand or within one year	(4,302)	(4,297)	(4,292)
	(4,302)	(4,297)	(4,292)
Less: amount due for settlement within 12 months (shown under current liabilities)	(4,302)	(4,297)	(4,292)
Amount due for settlement after 12 months	4,302	4,297	4,292
	-	-	-
	6 months ended 28 Feb. 2014 (Unaudited) £'000	6 months ended 28 Feb. 2013 (Unaudited) £'000	Year ended 31 Aug. 2013 (Audited) £'000
The weighted average interest rates paid were as follows:	%	%	%
Bank loan	4.00	4.00	4.00

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

FG (Bradford) Limited bank loan is repayable upon demand and interest payable is at the rate per annum which is the aggregate of 3% and the rate at which deposits in sterling are offered to the bank in the London Inter-Bank Market (subject to a minimum aggregate rate of 4% per annum).
FG (Bristol) Limited bank loan is repayable upon demand and interest payable is at the rate per annum which is 3% over the bank Base Rate (subject to a minimum Base Rate of 4% per annum).

There may be a risk of default on both of these loans if the capital is not repaid however in such an event the properties can be taken back and sold by Dunbar Assets Plc under the non-recourse funding arrangement.

It should be noted that this entire balance relates to discontinued operations.

Formation Group PLC

Registered number: 04145632

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