LSL Property Services plc

Annual Report & Accounts **06**

LSL Property Services plc

Annual Report and Accounts 2006

Contents

This report covers the period from 1 January 2006 to 31 December 2006. LSL Property Services Plc was admitted to the Official List and commenced trading on the London Stock Exchange's market for listed securities on 21 November 2006.

Forward Looking Statements:

This report may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial condition, business performance and results of LSL.
By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of LSL including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the UK.
As a result, LSL's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Highlights

- **Strong maiden results**
  - Turnover up 46% to £197.5m (2005: £134.9m)
  - Underlying Operating Profit up 73% to £32.3m (2005: £18.7m)
  - Underlying Operating Profit margin up from 13.9% to 16.4%
  - Adjusted Proforma Earnings Per Share up 83% to 19.8p (2005: 10.8p) (Basic and diluted earnings per share up to 23.1p (2005: 16.0p))
- **Strong underlying operating results from all divisions**
  - Surveying profits up 21% to £21.0m (2005: £17.4m)
  - Estate Agency and Financial Services profits up from £1.7m to £12.6m (including first full year contribution from Reeds Rains)
- **Mortgage lending up circa 50% to £3.0bn supported by investment in Linear**
- **Excellent cash flow generation with net cash flow from operating activities after capital expenditure £28.2m (2005: £15.2m)**
- **Net Debt reduced to £34.2m**
- **Well positioned for further growth both organically and from acquisitions**

Key Brands

Surveying

e.surv

e.surv Chartered Surveyors is one of the leading firms of Chartered Surveyors in the UK. It offers a range of predominantly residential survey and valuation services to both private sellers and buyers and to the institutional lending market. For private buyers and sellers, a range of services is provided by our offices, from a simple valuation through to a comprehensive Building Survey. For institutional and broker clients a comprehensive range of valuation services is offered. Specialised services such as Panel Management, Central Instruction, monthly accounting and national auditing of valuations are already provided to a broad cross section of lenders and brokers and we are in the process of extending these services.

Chancellors Associates

Chancellors Associates is a growing national network of principally self-employed surveyors undertaking a wide variety of survey and valuation work for both institutional and private clients.

homeinspectors.co.uk

homeinspectors.co.uk is widely regarded as the UK's market-leading independent training provider specialising in providing top quality packages of training and business support for those wishing to qualify as Licensed Home Inspectors and Domestic Energy Assessors.

Estate

Your Move

YOUR MOVE is an estate agency network with 286 branches across the UK. Although its core business is residential property services, it also offers lettings, mortgage and remortgage services plus protection products.

Reeds Rains

This well established, recognised regional estate agency network has 134 branches across northern England backed by a support structure of mortgage advisors and lettings centres.

Agency

Financial Services

Your Move

YOUR MOVE offers financial services within its branch network.

Reeds Rains

Reeds Rains offers financial services within its branch network.

Linear

This financial services business provides services to independent estate agents.

Homefast

This licensed conveyancing business is based in St Albans and performs both transactional conveyancing and re-mortgage conveyancing services.

Definitions

"Adjusted Proforma Earnings Per Share"
reflects the after tax effects of Underlying Operating Profit (as set out in note 10 of the Accounts) divided by the number of shares in issue as at 31 December 2006. This assumes that the 'B' ordinary shares which are classified as debt under IFRS and were converted to ordinary shares prior to listing in November 2006 were converted to ordinary shares at 1 January 2005

"AGM"
Annual General Meeting

"Chancellors Associates"
Chancellors Associates Limited

"Combined Code"
Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003

"e.surv"
e.surv Limited

"First Complete"
First Complete Limited

"Homefast"
Homefast Property Lawyers Limited

"homeinspectors.co.uk"
homeinspectors.co.uk Limited

"IFRS"
International Financial Reporting Standards

"Linear"
Linear Mortgage Network and Linear Financial Services

"Linear Financial Services"
Linear Financial Services Limited

"Linear Mortgage Network"
Linear Mortgage Network Limited

"LSL" or "Group"
LSL Property Services plc and its subsidiaries

"Net Debt"
is defined as financial liabilities less cash and cash equivalents.

"Openwork"
Openwork Holdings Limited

"Post Flotation Period"
the period between 21 November 2006 and 31 December 2006

"Reeds Rains"
Reeds Rains Limited

"Underlying Operating Profit"
is before exceptional costs and amortisation

"Your Move"
your-move.co.uk Limited

Chairman's Statement

I am delighted to report a strong set of maiden results following our flotation in November 2006. The Underlying Operating Profit of LSL is £32.3m for the year ended 31 December 2006.

The results across each division reflect a significant growth in profitability. This has been supported by an improved housing market, the full year's contribution of Reeds Rains (acquired in October 2005), the continued growth in profit and operating margin of Your Move and the continued strength and profits from the surveying division.

Financial Results

Group revenue has increased by 46% to £197.5m (2005: £134.9m) and the Underlying Operating Profit by 73% to £32.3m (2005: £18.7m) reflecting an improvement in margin from 13.9% to 16.4%.

The profit after tax is £13.4m (2005: £8.0m) for the year. The Adjusted Proforma Earnings Per Share is 19.8p (2005: 10.8p).

The business is highly cash-generative with low capital requirements resulting in a net cash inflow from operating activities after capital expenditure of £28.2m for the year (2005: £15.2m). The Net Debt at the year end was £34.2m.

As indicated at the time of flotation in November 2006, no dividend is payable for the short period between flotation and the year end. The first dividend payable will be the interim dividend in August 2007.

The directors intend to adopt a dividend policy which reflects the cash-generative nature of the businesses, the long term earnings potential of the Group and the opportunities to invest in organic growth and growth through selective acquisitions.

Market

The residential property market has shown strength throughout the year despite higher interest rates. The number of housing transactions in 2006 increased over 2005 with the number of mortgage approvals for house purchase increasing by some 20% to 1.43m. House prices increased on average by around 10% during 2006.

The macroeconomic factors for long-term growth in the residential property market remain positive.

Transaction volumes have generally been driven in recent years by an increase in owner occupation levels. This increase has occurred partly as a result of an increase in migration, a greater number of single-person households and multiple home owners. Transaction volumes have also been driven by an increase in the number of people buying property for investment purposes.

Nonetheless whilst LSL is dependent on the activity levels in the UK housing market the operating model demonstrates some resilience to the housing market cycle.

LSL's profitability is biased towards surveying, which in 2006 represented 65% of the Group's Underlying Operating Profit, whose resilience is principally due to the flexibility of e.surv's panel management model. Additionally, the franchising model of the estate agency business may provide some resilience in the event of a market downturn. *Continued*

Chairman's Statement

Developments

LSL has continued to invest for the future and to grow its business.

The estate agency division has grown both its turnover and profitability during the year. This was achieved by continuing to develop our customer offering, increasing sales of conveyancing, utilities, lettings and other products. The estate agency branch footprint has continued to grow through franchising. At 31 December 2006 there were 92 franchise branches, compared to 68 at end of 2005.

LSL's financial services division has significantly increased its mortgage lending by circa 50% year on year to £3.0bn. This was helped by the growth of LSL's new financial services brand, Linear, which sells financial services products via independent estate agents and Your Move franchised branches.

The surveying division has continued to deliver a strong performance growing market share, turnover and profits. It reported an Underlying Operating Profit margin of 30% excluding Reeds Rains surveying and Chancellors Associates. Chancellors Associates which was acquired in July 2006, predominantly utilises self-employed surveyors and this acquisition will provide new flexible capacity as well as an additional profit stream for LSL.

Since the year end, LSL has completed the acquisition of a majority interest in a small estate agency business. The business was valued at circa £3.0m, which reflects its underlying profitability and its strong brand and management.

Main Board

The Board of LSL was established on 11 October 2006. The Board, in addition to myself, comprises three executive and three non-executive directors. I welcome Peter Hales, Mark Morris and Mark Warburton to the Board who I am confident will provide invaluable support to the executive team.

People

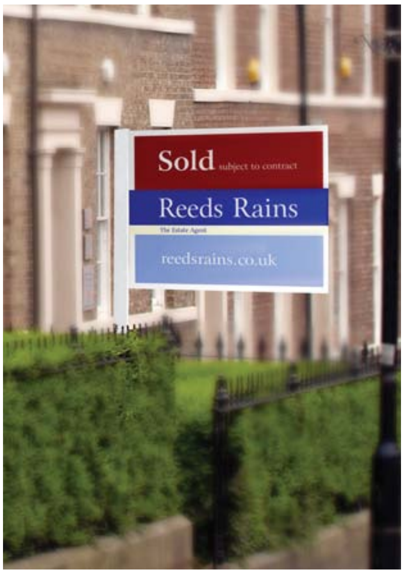
LSL is a people business and as such we are reliant on the commitment and enthusiasm of our employees on whom we depend to provide the high level of service that we strive to achieve for our clients and customers.

The recent flotation has provided the opportunity for our employees to share in the future success of the business via a Save As You Earn scheme which was launched in December 2006 and became effective in January 2007. The scheme was well received and was taken up by a third of our employees.

A number of senior management employees including the executive directors currently own 35% of LSL. We have also established a Long Term Incentive Plan to ensure all key employees are properly incentivised and fully committed to the longer term growth of the business. I would like to take this opportunity to thank all employees for their dedication and professionalism, which has enabled a successful flotation and strong profit growth during the year.

Outlook

The business is dependent in part on the activity levels in the UK housing market. Activity will be influenced by the level of any future interest rate increases and the introduction of Home Information Packs into the UK housing market planned for June this year.



Activity levels in the last quarter of 2006 were strong resulting in a good pipeline going into 2007 and have been encouraging since the start of the year.

LSL's trading performance in 2006 and its balance sheet provides a strong platform to deliver future growth. This will be achieved by continuing to improve the profitability and margin of our estate agency brands and continuing to build on the strength of our surveying division. We will also pursue selective acquisitions as we are well placed to act as a consolidator in the estate agency sector, which is a highly fragmented market.

Roger Matthews
7 March 2007

Business Review

Introduction

LSL provides a broad range of services to its two key customer groups, who are mortgage lenders and private consumers. The Group provides various property services to consumers including estate agency, lettings, valuation, surveying, advice on mortgage and non-investment insurance products and conveyancing. The Group also provides mortgage lenders with surveys and panel management services, conveyancing and marketing of repossessed properties and also refers mortgage business from its customers to mortgage lenders.

Key Strengths

LSL has the following key strengths:

- It is one of the leading residential property services groups in the UK, including at 31 December 2006 a network of 420 estate agency branches and one of the UK's leading surveying businesses.
- The surveying division is highly profitable and is one of the leading panel managers of residential mortgage valuations in the UK with a strong service reputation.
- LSL has demonstrated some resilience against the cycles of the housing market, largely due to the flexibility of e.surv's panel management model.
- The Group has strong operating cash flows and capital expenditure is low (2006: £2.1m).
- Since 2004 LSL has made a number of successful acquisitions, including Reeds Rains and Linear.
- The current executive directors have been with the Group since 2001 and have a track record of improving profitability as a result of organic growth and a number of successful acquisitions.

Strategy

LSL is well positioned for future growth both organically and through selective acquisitions.

Our surveying division continues to be successful in driving market share largely due to its service reputation and we are well placed to capitalise on new revenue opportunities such as Energy Performance Certificates.

LSL's proven franchise model in our estate agency division continues to gain momentum whilst we are seeing some encouraging signs in leveraging our relationships to increase the volume of part exchange and repossession sales.

On the acquisition front, LSL is well placed to act as a consolidator in a largely fragmented market. The acquisitions made through 2005 and 2006 have overall been successfully integrated into the Group and are earnings enhancing. LSL has a range of propositions to target companies that we believe are attractive and that leverage both Group relationships and individual brands.

Surveying Division Business Review

The surveying businesses have performed well in 2006, growing profitability and turnover.

	2006	2005	% Change
e.surv			
Turnover	**£68.3m**	£56.4m	21%
Underlying Operating Profit	**£20.4m**	£17.6m	16%
Margin	**29.9%**	31.2%	
Total Number of Jobs Managed	**935,256**	674,730	38%
Total Number of Jobs Performed	**433,870**	378,328	15%
Other Brands*			
Turnover	**£5.7m**	£0.6m	
Underlying Operating Profit/(loss)	**£0.6m**	(£0.2m)	
Total Surveying Business			
Turnover	**£74.0m**	£57.0m	30%
Underlying Operating Profit/(loss)	**£21.0m**	£17.4m	21%
Margin	**28.4%**	30.5%	

*'Other Brands' reflects the results of Chancellors Associates acquired in July 2006 and Reeds Rains, acquired in October 2005.
The Reeds Rains results were amalgamated into e.surv's results from October 2006 following the transfer of Reeds Rains surveyors into e.surv.

e.surv chartered surveyors

Chancellors Associates CHARTERED SURVEYORS

Surveying: Competitive Strengths

- The UK's largest distributor of valuations providing greater operational flexibility than competitors – even in a market downturn.
- Robust customer relationships with the leading lending institutions.
- Proven resilience of profits to variable residential property market conditions.
- Proven systems that drive operational efficiencies.
- Strong customer ethos with quick turn-around times for valuations.
- Further opportunities to consolidate the market and acquire additional surveying capacity.

Surveying Division

LSL operates its surveying division under its brands, e.surv and Chancellors Associates. The surveying division of Reeds Rains was incorporated into the e.surv business in October 2006.

LSL's surveying division customers are primarily mortgage lenders. As one of the UK's leading panel managers, e.surv is the panel manager for five of the top ten UK lenders. e.surv managed circa 935,000 surveys and valuations in 2006 out of total mortgage approvals in the UK of circa 3.5 m[1].

During 2006, circa 433,870 valuations were carried out by e.surv's employed surveyors. Chancellors Associates also carry out residential surveys and valuations for e.surv and other panel managers.

As at 31 December 2006 the surveying division had in excess of 300 employed Chartered Surveyors and had relationships with over 300 self-employed consultants, performing valuation services for the surveying division.

In 2006, the surveying business had turnover of £74.0m (2005: £57.0m) and Underlying Operating Profit of £21.0m (2005: £17.4 m).

Lender Relationships

e.surv has panel management arrangements with a significant number of lenders. A number of these arrangements are exclusive and involve the servicing and distribution of valuation instructions to these lenders' own teams of employed surveyors. esurv has solid relationships with these lenders and the relationship is enhanced by the generation of referrals from LSL's financial services operations.

Service Quality

Service quality is a significant factor in maintaining relationships with lenders and in seeking to win new panel management contracts. It also differentiates e.surv from its competitors. One of the key factors that lenders use in assessing service quality is turnaround time for valuation instructions. e.surv's turnaround time is better than many of its competitors, largely as a result of the flexibility of the panel management model and its use of sophisticated technology.

Chancellors Associates

In July 2006, LSL completed the acquisition of the Chancellors Associates business from Chancellors Estate Agents. At the year end Chancellors Associates operated a network of 119 self-employed surveyors and it receives valuation instructions from e.surv and other surveying panel managers. This acquisition increases the surveying divisions' self-employed consultant surveying capacity and provides access to a wider customer base and a better geographical footprint.

Hometrack Data Systems

LSL owns circa 15% of Hometrack, the leading provider of 'Automated Valuation Model' (AVM) technology in the UK. This investment was made in 2003 and provides LSL with an insight into the AVM market.

[1] Bank of England Data – January 2007

Estate Agency Division

Business

The estate agency business performed well in a very strong market. Both brands, Reeds Rains and Your Move, have grown profitability and made pleasing progress in 2006. The franchise proposition continues to grow and, as at the end of 2006, there were 92 franchised branches.

Estate Agency

	Your Move 2006	Your Move 2005	Reeds Rains 2006	Reeds Rains 2005*
Turnover	**£63.8m**	£54.5m	**£34.6m**	£6.8m
Underlying Operating Profit	**£7.8m**	£2.6m	**£6.4m**	£1.8m
Margin	**12.2%**	4.8%	**18.4%**	26.5%
Exchange Units	**20,920**	18,636	**14,335**	3,200
Average Commission	**1.59%**	1.63%	**1.31%**	1.22%
Average house price	**£146,000**	£133,000	**£143,000**	£135,000

Estate Agency Related **

	2006	2005
Turnover	**£4.1m**	£2.5m
Loss	**(£0.8m)**	(£0.7m)

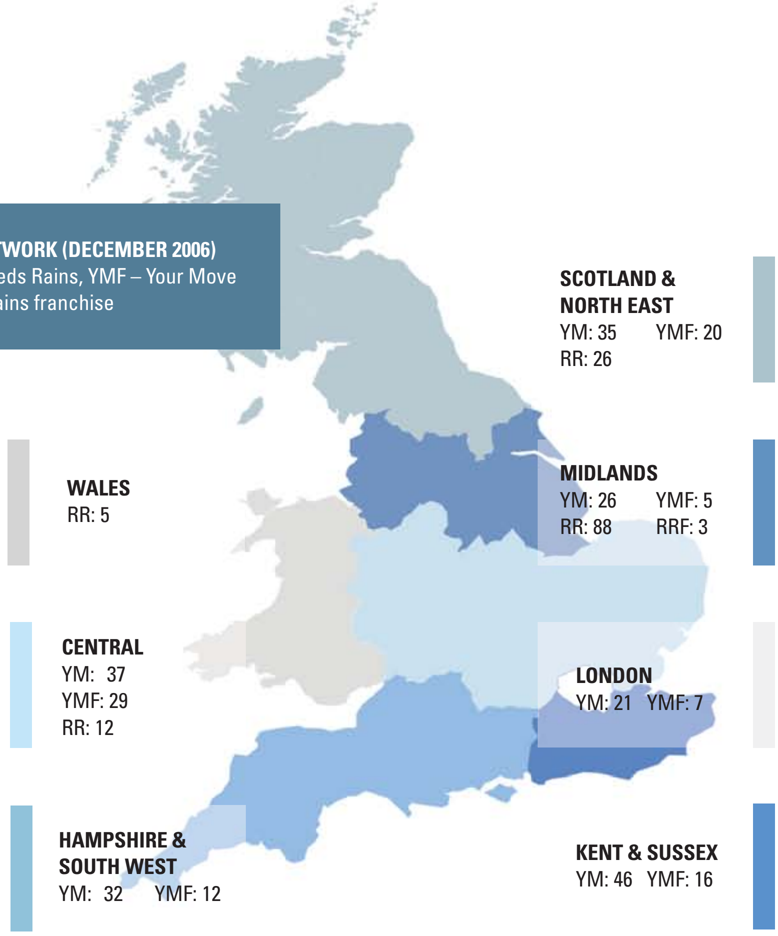
Total Estate Agency

	2006	2005
Turnover	**£102.5m**	£63.8m
Underlying Operating Profit	**£13.4m**	£3.7m
Margin	**13.1%**	5.8%

* Figures for Reeds Rains in 2005 reflect the period post acquisition from 1 October 2005 to 31 December 2005.

** Other brands included in the estate agency result are Homefast (the conveyancing business), homeinspectors.co.uk (training organisation) and First Complete (call centre operation).

COMBINED BRANCH NETWORK (DECEMBER 2006)
YM – Your Move, RR – Reeds Rains, YMF – Your Move franchise, RRF – Reeds Rains franchise



Estate Agency – Competitive Strengths & Growth Opportunities

- No.3 in the UK by number of branches*
- Improving Financial Performance
- Technology
- Advance proprietary browser based IT systems ("Preview" and "Quicklet")
- www.your-move.co.uk – the number 1 UK estate agency branded website**
- Successful franchise model
- Increasing level of sales to customers of additional financial and other property related services

* Estate Agency News, February 2007 ** Hitwise, February 2007

Estate Agency Division

Your Move's branch network operates throughout England and Scotland while Reeds Rains predominately operates in the north of England and has a presence in Wales.

During 2006, the estate agency business had turnover of £102.5m (2005: £63.8m) and Underlying Operating Profit of £13.4m (2005: £3.7m).

Estate Agency Revenue

The main drivers of estate agency revenue are:-

- Exchange fee income which is linked to housing transaction prices and commission rates. LSL is focused on increasing commission rates despite market conditions. Reeds Rains' commissions have increased in 2006 from 1.22% to 1.31% and Your Move's commissions have fallen marginally from 1.63% to 1.59% reflecting market conditions.

- Franchising income, which is generated from initial deposits on new openings, a monthly service fee of 8% of turnover, plus some IT costs, continues to grow in line with the increase in the franchise footprint.

- Lettings income is generated from providing a range of services to landlords and tenants. Lettings has been expanded within Your Move and as at 31 December 2006 there were 268 lettings offices across LSL. LSL is well positioned to grow income in this area of the business in 2007.

- Additional commission income is generated through the sale of general insurance, conveyancing services, utilities and other products and services to clients of the branch network.

Service Quality

LSL's estate agency businesses place strong emphasis on the quality of service they provide to customers and both Your Move and Reeds Rains are members of the Ombudsman for Estate Agents Scheme. All branch based employees of the estate agency business complete a specially designed training programme and the quality of service is monitored on a monthly basis.

Competition

LSL's major competitors in the estate agency market vary from national estate agency chains such as Countrywide and Halifax Estate Agencies to local independent estate agents. It is estimated that the top five estate agency chains, including LSL, account for circa 20% of all estate agency branches in the UK, regional chains account for a further 10%, and independents make up the rest.

Homefast Property Lawyers

Homefast Property Lawyers provides conveyancing services to consumers introduced to it by estate agents and lenders. The business was acquired in February 2005.

homeinspectors.co.uk

homeinspectors.co.uk was established in August 2005 and is now regarded as a leading provider of training services to individuals wishing to become Home Inspectors and more latterly Energy Assessors. It may also provide other training services to LSL.

Financial Services Division

Financial Services – Competitive Strengths & Growth Opportunities

- Strong performance – mortgage applications amounted to £3bn of lending. Growth of circa 50%
- Strong relationships with a broad panel of lenders
- Significant further mortgage growth opportunities in Linear as a result of placing financial consultants in independent agencies
- Linear – currently a loss making developing business, expected to deliver significant value creation over the next three years and future profits

Over the year there has been significant growth in the number of mortgages arranged by the financial services division. Linear Financial Services and Linear Mortgage Network (together Linear) are new brands placing mortgage advisors in the offices of Your Move franchisees and independent estate agents. The Linear brands will lose money whilst in their growth phase. Overall the business performance is satisfactory.

Financial Services	**2006**	2005	% Change
Turnover	£20.8m	£14.0m	49%
Underlying Operating Profit/(loss)	(£0.8m)	(£2.0m)	60%
Financial Consultant Numbers	312	250	25%
Mortgages arranged value (circa)	£3.0bn	£2.0bn	51%

Review

Introduction

As at 31 December 2006, LSL had 312 branch based financial consultants employed by Your Move, Reeds Rains and Linear. The financial services business seeks to enhance the revenue derived from the estate agency operations through the sale of mortgages and related protection products. In return LSL receives a combination of commissions on product sales and procuration fees from lenders.

For 2006, the financial services business had a turnover of £20.8 m (2005: £14.0m).

Financial Services Brands

As at 31 December 2006, Your Move employed 172 financial consultants. Since 31 December 2005, LSL has increased the number of employed financial consultants in Reeds Rains branches to 88. This has resulted in increased penetration rates for mortgage and other financial services sales in Reeds Rains branches.

In addition, LSL has invested in Linear Mortgage Network (acquired October 2005) and Linear Financial Services (acquired July 2006) which is placing financial consultants into Your Move franchised branches and independent estate agency branches. As at 31 December 2006, the Linear businesses employed 52 financial consultants. Linear is targeted to significantly grow the number of financial consultants in 2007. After this growth phase Linear will provide a new profit stream for the Group.

Mortgage Lending

The volume of mortgage application referrals has increased by circa 50% to £3.0bn, making LSL one of the largest mortgages intermediaries in the UK. Growth of its financial services business is a key focus area for LSL in 2007 as it continues to expand the number of financial consultants employed by Linear.

Regulation

Your Move and First Complete are directly authorised by the FSA in relation to the sale of mortgage, pure protection and general insurance products, while Reeds Rains and Linear are appointed representatives of Openwork. Reeds Rains is also an appointed representative of Letsure for the sale of rent indemnity insurance. LSL's financial services business places strong emphasis on the quality of service it provides to customers and all advisers complete a specially designed comprehensive training programme which is supplemented by effective supervision, regular monitoring and regular refresher training sessions. As a result of Reeds Rains' and Linear's appointments by Openwork, LSL through these companies has a small indirect shareholding of Openwork.

YOUR MOVE

Reeds Rains
The Estate Agent

linear

Financial Review

Business Review

The key drivers of the financial performance of LSL are summarised below.

Income statement

Revenue

Revenue increased by 46% to £197.5m in the year ended 31 December 2006 (2005: £134.9m). The increase was supported by a full year's trading from Reeds Rains, an improving housing market, and market share growth within surveying.

Operating Expenses

Operating expenses increased by 42% to £166.9m, reflecting a full year's trading of Reeds Rains, increased bonus payments which are linked to turnover and profit and the cost of funding the developing businesses such as Linear.

Underlying Operating Profit

Underlying Operating Profit was £32.3m up by 73% on 2005. This results in an improvement in the Underlying Operating Profit margin from 13.9% to 16.4%.

Exceptional Costs & Amortisation

Exceptional costs in the year ended 31 December 2006 amounted to £3.5m (2005: nil). These costs related to the flotation of LSL. In addition amortisation of intangible assets amounted to £5.5m (2005: £4.7m).

Net Financial Costs

Net financial costs amounted to £4.2m (2005: £2.8m). These costs include £1.3m of dividends on B shares paid prior to the flotation and to the cancellation of the B shares.

The B Shares were classified as debt under IFRS and were converted into ordinary shares in LSL prior to flotation.

Taxation

The effective rate of corporation tax for the year is 30% (2005: 29%).

Adjusted Proforma Earnings Per Share

The Adjusted Proforma Earnings Per Share (as defined in the Definitions section) are 19.8p (2005: 10.8p). The directors consider this provides a better and more consistent indicator of the Group's underlying performance.

Balance Sheet

Capital Expenditure

Total capital expenditure in the year amounted to £2.1m (2005: £1.8m). The capital expenditure predominantly comprised investment in IT development and branch refurbishment.

Financial Structure

As at 31 December 2006 the Net Debt of LSL was £34.2m (2005: £24.8m). LSL has an £80m overdraft and credit facility in place providing some flexibility for acquisitions. This gives a Net Debt to Underlying Operating Profit ratio of 1.06 to 1.

Cash Flow

The business is highly cash generative and has low capital expenditure requirements. Net cash inflows from operating activities after capital expenditure amounted to £28.2m (2005: £15.2m).

Net Assets

The net assets as at 31 December 2006 were £26.0m (2005: £8.7m)

Treasury & Risk Management

LSL has an active debt management policy and has purchased two interest rate caps: one which expires in September 2007 and restricts LIBOR to 6.5%; and one which expires in August 2009 and restricts LIBOR to 6% for £30.0m of debt. LSL does not hold or issue derivatives or other financial instruments for trading purposes.

International Financial Reporting Standards (IFRS)

The Financial Statements have been prepared under IFRS. LSL commenced reporting under IFRS from 1 January 2005.

S D Embley
Group Chief Executive Officer

D A Fielding
Group Finance Director

7 March 2007

Director Profiles

Paul Latham 1

Deputy Group Chief Executive Officer of LSL and **Managing Director** of e.surv, aged 50. Paul was appointed as e.surv's managing director in 2000. At the time of the management buy-out in 2004, Paul became the Deputy Chief Executive Officer of LSL. Paul has overall responsibility for e.surv's performance and for defining the business's strategic direction and since 2000 has overseen the development of e.surv into one of the UK's largest distributors of residential valuations. He holds an honours degree from the University of Reading and is a qualified Chartered Surveyor. Paul is recognised by customers as a leading exponent of technology solutions to provide real estate valuation advice to financial institutions.

Dean Fielding 2

Group Finance Director aged 41. Dean has been with LSL since 1995 when he joined GA Property Services, the previous name under which Your Move operated, as a management accountant in residential sales. In March 2002 Dean became the finance director of Your Move and e.surv, two of LSL's subsidiaries. Dean became Group Finance Director at the time of the management buy-out in 2004. Dean is responsible for the financial strategy and ensuring that LSL maintains strong systems and internal controls. Prior to joining LSL, Dean qualified as a Chartered Accountant with Kidsons Impey in 1989 and subsequently worked in private practice as an auditor and business consultant.

Mark Morris 3

Independent non executive director, aged 46. Mark was appointed as a non executive Director of the Board on 11 October 2006. Mark is a Chartered Accountant and is currently non executive director and audit committee chairman at Christian Salvesen plc. He previously worked at Sytner Group as finance director and managing director from 1995 to 2005 including the period during which Sytner was listed on the London Stock Exchange and was responsible for their extensive acquisition programme. Prior to this Mark spent 12 years with Pricewaterhouse Coopers in audit and corporate finance.

Simon Embley 4

Group Chief Executive Officer, aged 46. Simon became the Chief Executive Officer of the Board at the time of the management buy-out of e.surv and Your Move from Norwich Union in 2004. Simon is responsible for the strategic direction of LSL. From 2001 until the management buy-out, Simon was managing director of Your Move, where he oversaw its turnaround from a heavily loss-making business to the successful business it is today. His previous experience includes establishing Norwich Union's pensions business in Poland for eighteen months and in 2000 he was a director of Norwich Union Wealth Management.

Peter Hales 5

Independent non executive director, aged 63. Peter has been on the Board of LSL since 2005, originally as non executive Chairman. Peter has 44 years' experience in the residential property sector. From 1994 to 2004 Peter worked for Countrywide Surveyors initially as chief executive and latterly as chairman. He has also worked in senior management roles for Nationwide, Anglia, the Council of Mortgage Lenders and RICS.

Roger Matthews 6

Non executive Chairman, aged 52. Roger was appointed Chairman of the Board on 11 October 2006. Since July 2005 Roger has been chairman of Land of Leather Holdings plc and is also currently the senior independent non executive director of RHM plc and a non executive director of MITIE Group plc. He was formerly chairman of Sainsbury's Bank plc, group finance director of J.Sainsbury plc, managing director and finance director of Compass Group plc and worked for Grand Metropolitan plc, Cadbury Schweppes plc and PricewaterhouseCoopers. Roger is a Chartered Accountant.

Mark Warburton 7

Independent non executive director, aged 56. Mark was appointed as a non executive director of the Board on 11 October 2006, having been a non executive director of Reeds Rains since September 2003 and Your Move since April 2006. Mark has 27 years' experience as a solicitor and wide practical experience in corporate finance and banking. Mark is currently general manager, legal counsel and company secretary to an AIM quoted company, Cyprotex Plc, a position which he has held since 2003. From November 1999 to January 2002 Mark was a partner at Addleshaw Booth & Co. From February 2002 to March 2003 he was legal director for Galileo Innovation plc.

Company details

LSL Property Services Plc

Registered in England (Company Number 5114014)
Registered Office:
Newcastle House, Albany Court, Newcastle Business Park, Newcastle, NE4 7YB

Telephone 01904 715324
Facsimile 01904 715354
E-mail enquiries@lslps.co.uk
Website www.lslps.co.uk

Share listing

LSL Property Services plc 0.2p ordinary shares are listed on the London Stock Exchange under ISIN GB00BIG5HX72.

Registrar

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
United Kingdom
Telephone 0870 162 3131
Facsimile 01484 600911
Website www.capitaregistrars.com
Email shareholder.services@capitaregistrars.com

If you move, please do not forget to let the Registrars know your new address.

Provisional calendar of events

Preliminary Results Released	**7 March 2007**
AGM Proxy Form Deadline	**2.30pm 21 May 2007**
AGM	**2.30pm 23 May 2007**

The AGM will be held at the offices of Buchanan Communications, 45 Moorfields, London, EC2Y 9AE. The notice to shareholders details the proposed resolutions.

Principal Activity

LSL Property Services plc is the holding company for a number of property services related businesses. The Group's activities are estate agency, surveying and financial services.

Business Review & Development

The Chairman's Statement and the Business Review set out a review of the business including details of LSL's performance and development.

Annual General Meeting

The first AGM will be held at the offices of Buchanan Communications, 45 Moorfields, London, EC2Y 9AE on 23 May 2007 starting at 2.30pm.

The notice convening the AGM is in a separate document to be sent to shareholders. The document also includes a commentary on the business of the AGM and notes to help shareholders to attend, speak and/or vote at the AGM.

Results & Dividends

The Business Review and Financial Statements set out the results of LSL. No dividend will be paid for the short period between the flotation in November 2006 and the year end.

Employees (Including Disabled Employees)

The Group's practice is to keep all of our employees informed on matters affecting them, through consultation and information on the general financial and economic factors affecting the Group's performance.

The Group's policy on disabled employees is discussed in the Corporate Social Responsibility Statement.

Risks & Uncertainties

The executive directors continually identify, evaluate and manage material risks and uncertainties faced by LSL which could adversely affect the business, operating results and financial condition of LSL. These risks are recorded and managed through a risk register, and the principal risks and uncertainties identified are:

1. Risks Relating to the Group Generally

- Competition from other residential property service providers (including new market entrants such as supermarkets) may have an adverse effect on LSL's revenue and profits. Changes in legislation or regulation such as the introduction of Home Information Packs on 1 June 2007 may increase costs or reduce revenues or affect the residential property market.
- The reputation and profitability of LSL could be adversely affected by the actions of one or a limited number of our employees or franchisees.
- HMRC may reduce the tax deductions historically used by LSL, increasing LSL's tax liability. There is no guarantee the directors will be able to maintain or increase the business's profitability.
- Changes in the behaviour of mortgage lenders or customers could affect the business's profitability.

2. Risks Relating to the Surveying Division

- Substantially increased use of Automated Valuation Models could have an adverse effect on the volume of valuations LSL carries out for mortgage lenders.
- LSL may be held liable for any inaccurate surveys relied upon by customers to their detriment; this could adversely affect the profits of the surveying division.
- HMRC may change its practice or enact new legislation affecting the classification of Chancellors Associates and e.surv's self-employed surveyors, increasing LSL's tax liability.

3. Risks Relating to the Estate Agency & Financial Services Divisions

- Any failure by LSL to comply with the provisions of any licences or permissions under which we conduct our business may result in a loss of authorisation to perform our functions or the imposition of sanctions on LSL by regulatory authorities.
- An increase in the number of private residential sales (whether as a result of the use of the internet or otherwise) would remove estate agents from the home-buying process and result in a decrease in the volume of sales through LSL's estate agents.
- LSL's franchise model has not been tested for a long enough period to be certain of its success.

- If LSL acts or is perceived to be acting inconsistently with the terms of privacy and/or data protection policies, laws or best practices LSL may be subject to investigative or enforcement action by a regulatory body.
- Changes in regulations relating to operating retail premises or new regulatory burdens may increase LSL's costs.

Further information relating to the management of these risks and uncertainties is set out in the Corporate Governance Report.

Financial Instruments

The Business Review sets out LSL's strategies and objectives relating to treasury and risk management. Details of the financial instruments are set out in note 27 of the Accounts.

Directors

The current directors are listed with their biographies in Directors' Profiles. Roger Matthews, Mark Morris and Mark Warburton were appointed on 11 October 2006.

Directors' Interests

The interests of the current directors in the ordinary shares at the beginning of the financial period, or their date of appointment if later, and at the end of the financial period are set out below.

Name	Pre IPO* (shares of 10.0p)	PRE IPO %	At IPO (shares of 0.2p)	31.12.06 (shares of 0.2p)	Total %
Simon Embley	201,000	9.65	7,587,750	7,587,750	7.30%
Dean Fielding	160,800	7.72	6,070,200	6,070,200	5.84%
Peter Hales	–	–	–	–	–
Paul Latham	180,900	8.68	6,828,975	6,828,975	6.57%
Roger Matthews	–	–	49,382	49,382	0.54%
Mark Morris	–	–	17,283	17,283	0.02%
Mark Warburton	–	–	4,938	4,938	0.005%

*Prior to the flotation, LSL undertook a restructuring exercise whereby ordinary shares of 10p each were subdivided into shares of 0.2p each. Details of this restructuring is set out in the prospectus issued by LSL at flotation.

In addition to the above, Simon Embley acquired an option to acquire 4,648 ordinary shares in three years time at a price of £1.74 per share as part of LSL's Save as You Earn scheme in January 2007.

Details of the executive directors' service agreements and the non executive directors' letters of appointment are set out in the Remuneration Report.

Save for these interests, no director was materially interested in any contract during the financial period that is or was significant to the business of the Group or any subsidiary undertaking.

Auditors

Ernst & Young LLP are the external auditors of the Group and their reappointment to this role and the authority for their remuneration to be determined by the directors will be proposed at the AGM. Details of LSL's policy designed to safeguard the independence and objectivity of the external auditor is included in the Corporate Governance section of this report.

Share Capital

Details of the changes in the share capital are set out in note 22 of the Financial Statements.

A renewal of the authority for the directors to allot unissued ordinary shares and a renewal of their power to dis-apply statutory pre-emption rights will be proposed at the AGM.

Shareholders

As at 5 March 2007, the shareholders set out below have an interest in 3% or more of the issued ordinary shares.

	Ordinary Shares of 0.2p	%
Institutions		
Barclays Industrial Investments	8,789,310	8.45%
Barclays PVLP Partner Ltd	3,844,110	3.70%
BPE General Partner Limited	15,861,630	15.23%
Chase Nominess Limited	7,675,084	7.37%
HSBC Global Custody Nominees (UK)	4,162,835	4%
Morstan Nominees Limited	4,600,000	4.42%
Nortrust Nominees Limited	4,112,042	4.03%
Vidacos Nominees Limited	6,146,076	5.90%
Individuals (excluding executive directors)		
David Newnes	5,311,425	5.10%

Charitable & Political Donations

LSL made charitable donations of £15,691 during the financial period. No political contributions were made during the financial period.

Creditors & Supplier Payment Policy

LSL's normal terms are to make payment in accordance with suppliers' terms of trade or within 30 days from the receipt of services or invoices subject to satisfactory performance by the supplier. At 31 December 2006, LSL Property Services plc had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts.

Going Concern

After making appropriate enquiries the directors consider that LSL and the Group have adequate resources to continue in operational existence for the foreseeable future and for this reason have continued to adopt the going concern basis in preparing the Financial Statements.

Disclosure of Information to Auditors

Having made enquiries of fellow directors and of the external auditors, each of the current directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of this report of which the external auditors are unaware; and
- he has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the external auditors are aware of that information.

Directors' Qualifying Third Party Indemnity Provisions

LSL has in its articles reserved the right to grant its directors an indemnity against liability in respect of any proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. LSL has put in place 'Directors & Officers Liability' insurance to cover itself for this liability.

Post Balance Sheet Event

On 7 February 2007, the Group acquired a majority shareholding in ICIEA Limited, an estate agency business.

Approved by and signed on behalf of the Board of Directors

Sapna Bedi
Company Secretary

7 March 2007

The directors recognise the value and importance of meeting the standards of corporate governance set out in the Combined Code. This part of the report describes the corporate governance arrangements that are in place.

During the Post Flotation Period, LSL complied with the provisions of the Combined Code in all respects save for the following:

- given that the period since flotation is short there are evaluations, reviews and meetings required by the Combined Code, which would not have been productive if they had taken place. It is the intention of the directors that such evaluations, reviews and meetings will take place in the future. The relevant provision of the Combined Code is A6 (board evaluation); and
- at flotation the directors decided not to appoint a senior independent director (as required by A1 of the Combined Code) but expects to make an appointment during 2007. The two main responsibilities for a senior independent director are to be a point of contact for shareholders, where the normal lines of communication have failed or such contact is inappropriate, and to lead the appraisal of the Chairman by the non executive directors. The directors were of the opinion that in the period immediately following flotation this appointment was unnecessary as the Chairman and executive directors had to be given time to build a relationship with LSL's new shareholders and the Chairman had to be given time to develop his role before being evaluated.

The Board

The Board has seven members and it comprises the Chairman, three executive directors and three independent non executive directors. The directors are listed with their biographies in Directors' Profiles. There is a clear division of responsibilities between the Chairman, whose key responsibility is the effective running of the Board, and the Chief Executive, whose key responsibility is the running of the business. There is a clear division of responsibilities between the running of the LSL Board and the executive responsibility for running LSL's business. No-one individual has unfettered powers of decision.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Combined Code; his only other significant commitments were chairman of Land of Leather plc and senior independent non executive director at RHM plc. Since then he has also become a non executive director of MITIE Group plc.

Copies of the executive directors' service agreements and of the non executive directors' letters of appointment are available for inspection at the Registered Office during normal business hours and at each AGM.

Notwithstanding the fact that Peter Hales and Mark Warburton have previously provided consultancy and advisory services respectively to subsidiaries of LSL, the Board considers that all of the non executive directors were independent for the purposes of the Combined Code when appointed to the LSL Board and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Each newly appointed director received an induction on the responsibilities of a listed public company director and/or on LSL's business. Thereafter, LSL provides the necessary resources for developing this understanding and knowledge.

It is the intention during 2007 for the Chairman to facilitate discussions with directors on an evaluation of the performance of the Board, the Board Committees and of individual directors. The non executive directors will evaluate the Chairman's performance, after taking into account the views of the executive directors. Any issues arising from the evaluations will be subject to an action plan to ensure that the directors are individually and collectively effective.

During the period from flotation to 31 December 2006 the attendance of each of the directors at the meetings held while he was a Director or a Committee member are set out below.

Director	Board	Audit Committee	Remuneration Committee
Roger Matthews	2	–	–
Simon Embley	2	–	–
Paul Latham	2	–	–
Dean Fielding	2	–	–
Mark Morris	2	1	1
Peter Hales	2	1	1
Mark Warburton	2	1	1

No Nomination Committee meetings took place during 2006 as none where required, however two meetings are scheduled for 2007.

In accordance with the articles of association, all the current directors will retire at the AGM, and, being eligible, are intending to stand for re-election at the meeting. At each subsequent AGM, all directors appointed since the previous AGM and circa one-third of the remaining directors, including any director who has not been elected or re-elected at either of the two preceding AGMs, will retire by rotation and may seek re-election.

Operation of the Board

The Board met twice in the period from flotation to the end of the financial period on 31 December 2006. The attendance of directors at these meetings is set out above. In 2007 the Board is scheduled to meet eleven times and additional meetings will be held as required.

During the Post Flotation Period the non executive directors and the Chairman collectively did not meet without the executive directors being present. However, it is their intention that this will happen at least twice in 2007.

The Board is primarily responsible for decisions on Group strategy, including approval of strategic plans, annual budgets, interim and full year financial statements and reports, dividend and accounting policies and all material capital projects, investments and disposals, and the monitoring of financial performance against budget and forecast. There is a schedule of matters reserved for the Board which will be reviewed annually.

The Board has adopted principles of good boardroom practice which set out procedures on how directors are given accurate, timely and clear information and how they can seek and obtain information or advice necessary for them to discharge their duties.

The Board intends to undertake an evaluation of its own performance and that of its Committees and the individual directors in 2007.

Board Committees

The Board has delegated specific responsibilities to three standing Committees of the Board: Audit, Nomination and Remuneration. The membership of these Committees and a summary of their main duties under their terms of reference are set out below. The full terms of reference may be viewed on LSL's website (www.lslps.co.uk). It is the intention that the Chairman of each of the Committees will attend the AGM to answer any questions.

Audit Committee

The Audit Committee is chaired by Mark Morris and its other members are Peter Hales and Mark Warburton. It is expected to meet four times in 2007. LSL's internal and external auditors, the Chairman, the Chief Executive and the Group Finance Director may attend and speak at meetings of the Audit Committee. The Board is satisfied that Mark Morris has recent and relevant financial experience as is required by the Combined Code.

The Audit Committee met twice in the period from flotation on 21 November 2006 to the date of this report, including meeting the external and internal auditors. A meeting without the executive directors being present was held on 28 February 2007.

The duties of the Audit Committee include monitoring the integrity of LSL's financial statements, reviewing the effectiveness of the internal control and risk management systems, reviewing procedures for handling any internal allegations, overseeing the internal audit function, overseeing the relationship with the external auditor, and reviewing the scope and results of audits.

To guard against the objectivity and independence of the external auditors being compromised, the Audit Committee has adopted a policy under which any service provided by the external auditors must be approved by the Committee or be within a pre-approved category and a pre-approved fee limit.

The policy stipulates restrictions and procedures in relation to the allocation of non audit work to the auditor. These include categories of work, which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of work, or the approval of the Audit Committee. The Audit Committee is kept informed of the fees paid to the auditor in all capacities.

The split between audit and non audit fees for 2006 appears at note 9 to the Accounts. The non audit fees related predominantly to Ernst & Young's role as the reporting accountant on the flotation. The amount and nature of non audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

Nomination Committee

Roger Matthews is the Chairman of the Nomination Committee and the other members of the Committee are Mark Morris, Peter Hales and Mark Warburton. There has been no requirement for the Nomination Committee to meet in the Post Flotation Period but the Committee is scheduled to meet twice in 2007.

The duties of the Nomination Committee include reviewing the structure, size and composition of the Board, reviewing succession plans for the directors, and making recommendations to the Board on membership of the Board and of its Committees.

The current non executive directors were appointed by the executive directors as part of the flotation process. The non executive directors were selected for their mix of legal, financial, surveying and residential property services experience.

Remuneration Committee

The Remuneration Committee is chaired by Peter Hales and its other members are Mark Morris and Mark Warburton. It is expected to meet not less than two times a year. The Chairman and the Chief Executive Officer will attend the meetings.

The Remuneration Committee has responsibility for determining, within agreed terms of reference, LSL's policy on the remuneration of senior executives and specific remuneration packages for executive directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of options under the employee share schemes. The Remuneration Report provides details of how the Committee has discharged these duties.

The remuneration of non executive directors is a matter for the Board. No director or manager may be involved in any decisions as to their own remuneration.

The Remuneration Committee met twice during the Post Flotation Period.

Relations with Shareholders.

LSL maintains a dialogue with institutional shareholders through individual meetings with senior management and the views of shareholders expressed during these meetings are reported to the Board. The main opportunity for non-institutional shareholders to question the directors is at general meetings and it is the intention of each of the directors to attend the AGM to be held at Buchanan Communications, 45 Moorgate, London EC2Y 9AE on 23 May 2007, starting at 2.30pm.

Information about LSL may be viewed at anytime on LSL's website (www.lslps.co.uk).

Model Code

LSL complies with a code of securities dealings in relation to its ordinary shares which is consistent with the Model Code published in the Listing Rules. This code applies to the directors and relevant employees of LSL.

Internal Controls

The Board has overall responsibility for LSL's system of internal controls and for reviewing its effectiveness. The system of internal control is an ongoing process designed in accordance with the guidance of the Turnbull Committee on 'Internal Control' to identify, evaluate and manage significant risks faced by LSL. Its aim is to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The internal controls are also in place to safeguard shareholder investment and LSL's assets.

During the period from flotation to the date of this report the executive directors have continually identified, evaluated and managed material risks and uncertainties faced by LSL which could have adversely affected LSL's business, operating results and financial condition. The effectiveness of the internal control system and risk management process is kept under review by the Audit Committee and has been reviewed by the Board. The principal risks and uncertainties facing LSL are set out in the Report of the Directors.

LSL operates a management structure with delegated authority levels and functional reporting lines and accountability. It also operates a budgeting and financial reporting system, which compares actual performance to budget and to the previous year on a monthly basis. In addition, the executive directors receive daily information on sales activity and weekly information on key result areas. All capital expenditure and other purchases are subject to appropriate authorisation procedures.

The Group has an internal audit team, which has since the flotation been strengthened by the engagement of additional resources. Reports are submitted to the Audit Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance controls on a continuing basis and to identify and respond to business risks as they arise.

Approved by and signed on behalf of the Board of Directors

Sapna Bedi
Company Secretary

7 March 2007

Directors Remuneration Report

Details of the Remuneration Committee composition and responsibilities are set out in the Corporate Governance Report.

Remuneration Policy

LSL strategy has been designed to create shareholder value and the aim of LSL's remuneration policy is to attract, retain and motivate directors with the experience and skills necessary to deliver that strategy and to run LSL successfully.

Directors who held shares at the time of flotation have retained significant interests in LSL's shares and will derive a proportion of their regular income from dividends and long-term income through the increase in the price of these shares. For these reasons the interests of these directors are closely aligned with the interests of the other shareholders.

The payment of basic salaries, other cash and benefits are not related to performance. The payment of bonuses and the exercise of long-term incentives are related to performance, as set out below.

The remuneration of the Chairman and non executive directors is a matter for the Board. No director may be involved in any decisions as to their own remuneration.

Fees

The non executive directors' fees were fixed at the time of flotation and will be reviewed periodically by the Board. None of the executive directors hold non executive directorships of any other companies other than to represent the minority interests of the Group

Executive Directors' Salaries

The basic salaries for 2007 of the executive directors were agreed at the time of the flotation, to take effect from the 1 January 2007. (These new salaries were disclosed in the share offer document published on 16 November 2006). Details of the directors' emoluments for 2006 are summarised in the table over the page (see Directors Emoluments Table). Salaries are reviewed annually but there is no obligation to make any increase. The basic salaries were adjusted to reflect the median of the market.

Performance Bonuses

Where bonuses are granted, the Remuneration Committee will set out the maximum amount that may be earned and the performance conditions that must be achieved before payment is made. These conditions will be relevant, stretching and designed to enhance shareholder value.

A bonus arrangement has been put in place for the executive directors for 2007. Under the arrangement the maximum bonus payable to each of the executive directors will be equal to 100% of basic salary over the period. The performance target allied to this target is LSL exceeding the budgeted Underlying Operating Profit after payment of the maximum bonus.

The bonus reduces on a sliding scale down to 0% of basic salary for a performance of 6% below budgeted Underlying Operating Profit. The payment of any bonus is discretionary and will be awarded by the Remuneration Committee.

Long-term Incentives

A number of senior management employees including the executive directors currently own 35% of LSL, and these employees are subject to a minimum two-year lock-in commencing on the date of listing. LSL has also established a long term incentive plan to ensure that all key employees are properly incentivised and fully committed to the long term growth of the business. Where options are granted the Remuneration Committee will determine the individual grants and criteria that must be achieved before options are exercised. These criteria will be stretching and challenging. Prior to flotation, three employees received a grant of options under this scheme, which in total amounted to 130,512 options

A Deferred Bonus Plan was adopted by the Board on flotation, however it is currently intended that awards under this plan will not be made until 2008.

Executive Directors' Pensions

The executive directors pension scheme is a money purchase scheme and the aggregate amount set aside by LSL to provide pension, retirement or similar benefits in relation to the executive directors in the financial year ended 31 December 2006 was £29,665 (2005: £27,711). This was made up as follows: Simon Embley: £12,648; Dean Fielding: £9,300; and Paul Latham: £7,717.

Director Appointments

Non-Executive Director	Date of Appointment
Roger Matthews	11 October 2006
Peter Hales	1 February 2005
Mark Morris	11 October 2006
Mark Warburton	11 October 2006

Executive Director Service Arrangements

The executive directors have entered into service agreements with LSL, under which they are to remain employed on an ongoing basis, summaries of which are set out below in the Directors' Emoluments table.

Each of the service agreements allows LSL to place the director on 'garden leave' for a maximum period of six months in the event the director has given, or is given, notice to terminate their employment. Each of the agreements also provide for the relevant executive director to receive medical insurance, life assurance and permanent heath insurance as well as a discretionary bonus (see Performance Bonuses above for details relating to bonus awards). None of the executive directors are entitled to any benefit on termination of his service agreement other than contractual benefits to be provided during any notice period.

	Continuous Employment Since	Notice Period (both parties)	Pension	Car Allowance	Holiday
Simon Embley (CEO)	31.08.1993	9 months	10% employer contribution	Allowance (£10,000 p/a)	30 days
Dean Fielding (Group FD)	01.05.1995	6 months	10% employer contribution	Allowance (£8,500 p/a)	30 days
Paul Latham (Deputy CEO)	21.11.1987	9 months	10% employer contribution	Company Car	30 days

Non Executive Director Appointment Arrangements

Each of the non executive directors have letters of appointment, which were issued by LSL on appointment and which became effective on admission. The fees due for such appointments are detailed in the Directors Emoluments table over the page. Under the terms of each letter of appointment, the appointment is for an actual term of three years unless otherwise terminated earlier by, and at the discretion of, either party on three month's notice. In addition, the appointments may be terminated by LSL for cause. The non executive directors are not entitled to participate in LSL's executive remuneration programmes or pension arrangements.

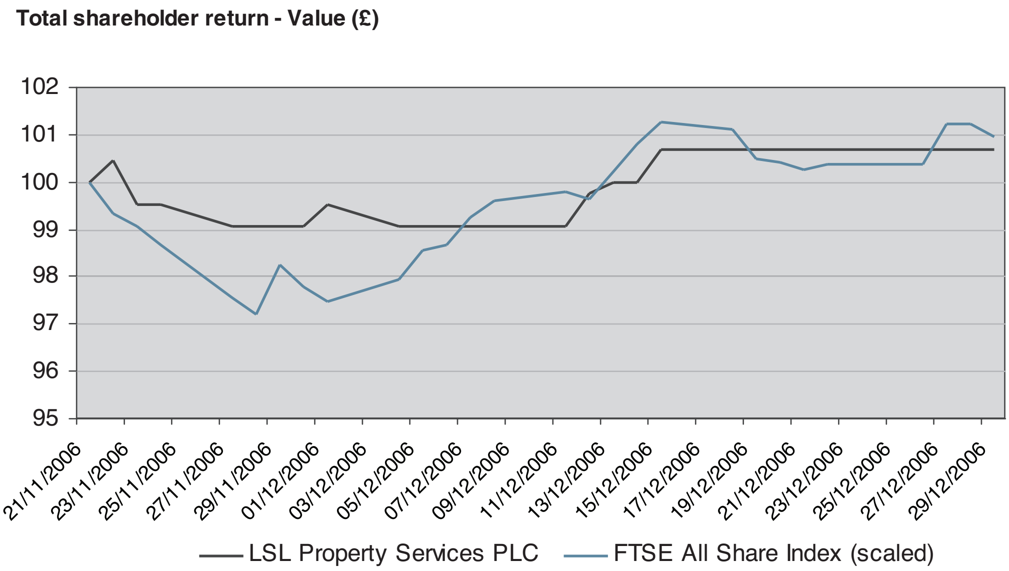
Directors' Emoluments table

Details of each director's remuneration for the year ended 31 December 2006 are as follows:

	Salary & Fees	Related Bonuses	Benefits (excluding pension)	2006 Total	2005 Total
Simon Embley (Group CEO)	£139,156	£155,217	£636	£295,009	£236,246
Dean Fielding (Group Finance Director)	£101,500	£113,246	£1,074	£215,820	£163,240
Peter Hales (Non Executive Director)	£34,906	–	–	£34,906	£22,917
Paul Latham (Deputy CEO)	£104,000	£124,800	£9,647	£238,447	£190,764
Roger Matthews (Chairman)	£16,667	–	–	£16,667	–
Mark Morris (Non Executive Director)	£5,833	–	–	£5,833	–
Mark Warburton (Non Executive Director)	£15,949	–	–	£15,949	£38,274

The above table forms part of the Financial Statements on which the auditors have expressed their opinion in their report.

Shareholder Return – 21 November 2006 to 31 December 2006



This graph shows the value, by the end of December 2006, of £100 invested in LSL Property Services plc on 21 November 2006 compared with the value of £100 invested in the FTSE All Share Index. The FTSE All Share Index has been selected as a sufficiently broad market index which is most comparable to LSL.

Approved by and signed on behalf of the Board of Directors

Sapna Bedi
Company Secretary

7 March 2007

Corporate Social Responsibility

Set out below is LSL's corporate social responsibility statement, which applies to LSL and its subsidiaries.

LSL is a leading provider of residential property services in the UK. It's principal operations are its surveying division (operating under the brands of e.surv and Chancellors Associates); its estate agency division (operating under the brands of Reeds Rains and Your Move); and its financial services division (including Linear).

LSL provides a broad range of property related services to customers, who are principally mortgage lenders and buyers and sellers of residential property in the UK.

Set out below is LSL's corporate social responsibility statement, which applies to the LSL Group of companies.

1. Personnel

- **Information:** LSL ensures that employees are kept informed of Group affairs via information distributed by post, e-mail or the intranet sites and meetings involving directors, managers and staff. All Group employees are encouraged to discuss operational issues with their line management.
- **Employee Share Schemes:** Since listing on the London Stock Exchange in November 2006, LSL has launched a 'Save As You Earn' scheme (all Group employees were invited to participate) and a 'Long-Term Investment' plan for certain employees.
- **Equal opportunities:** LSL is committed to a policy of equal opportunity in employment, which is seen as a vital part in the success and growth of LSL. Every effort is made to select, recruit, train and promote the best candidates based on suitability for the job; to treat all employees and applicants fairly regardless of race, sex, marital status, nationality, ethnic origin or disability; and to ensure that no employee suffers harassment or intimidation.
- **Disabled employees:** LSL's policy is to provide employment and to make reasonable adjustment to accommodate disabled persons wherever the requirements of the organisation will allow and if applications for employment are received from suitable individuals. If existing employees become disabled every reasonable effort will be made to ensure that their employment with LSL can continue on a worthwhile basis with career opportunities available to them.
- **Health, safety and welfare at work:** LSL places great importance on the health, safety and welfare of its employees. Policies, group standards and procedures are in place, which aim to identify and remove any hazardous areas, reduce material risks of fire and accidents or injuries to employees and visitors and, in conjunction with its personnel policies, manage workplace stress levels.

  Health & Safety and Fire officers actively implement LSL's policies, standards and procedures in all offices and branches in which LSL operates. All Health & Safety matters are reported to the LSL board of directors and suitable enhancements or improvements are made following recommendations from the relevant business areas.

  To this end, LSL makes every reasonable effort to provide safe and healthy working conditions in all offices and branches. Similarly, it is the duty of all employees to exercise responsibility and to do everything to prevent injury to themselves and to others.

  The policy standards and procedures are communicated to employees through contracts of employment, staff handbooks, operating manuals, bulletins, the intranet sites and notice boards as appropriate.

2. Environmental issues

LSL takes its responsibility for social, ethical and environmental issues very seriously and recognises the importance of developing and maintaining high standards.

LSL commits itself to all available processes and practices that have the least impact on the environment and seeks to use all of its resources carefully. Employees are encouraged to conserve all types of energy and to recycle or minimise waste products wherever possible.

Group companies will assess and manage the environmental impact of their operations by taking part in various recycling and energy efficient practices so that it can be an active participant in the sustainable society.

LSL takes environmental aspects into consideration when purchasing goods and services and where possible prefer to use suppliers who respect the environment and have an ISO 14001 or an Environmental Management System.

3. Stakeholder Interests (including Social and Ethical Issues)

While LSL is accountable to shareholders, it takes into account the interest of all stakeholders including employees, customers and suppliers as well as the local community, and the environment in which it's divisions operate.

Employees

Each Group company:

- Provides clear and fair terms of employment.
- Provides clean, healthy and safe working conditions.
- Has a fair remuneration policy everywhere it operates.

- Strives for equal opportunities for all present and potential employees.
- Encourages employees to develop skills and progress in their careers.
- Does not tolerate any sexual, physical or mental harassment of employees.
- Does not discriminate on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation.
- Does not employ underage staff.

Customers

Each Group company:

- Seeks to be honest and fair in its relationships with its customers.
- Provides the standards of product and service that have been agreed.
- Takes all reasonable steps to ensure the safety and quality of products or services that it produces.

Suppliers

Each Group company:

- Seeks to be honest and fair in its relationships with suppliers and subcontractors.
- Pays suppliers and subcontractors in accordance with agreed terms.
- Has a policy not to offer, pay or accept bribes or substantial favours.
- Encourages suppliers and subcontractors to abide by the principles of this policy.

Community and environment

Each Group company:

- Aims to be sensitive to the local community's cultural, social and economic needs.
- Endeavours to protect and preserve the environment where it operates.
- From time to time make donations and support local and national charities.

Shareholders and other suppliers of finance

Each Group company:

- Is financially accountable to its shareholders.
- Communicates to shareholders on all matters that are material to an understanding of the future prospects of the organisation.
- Aims to protect shareholders' funds, manage risks and ensure funds are used as agreed.

4. Management commitment

The directors of LSL together with the management teams of all Group companies have committed to undertake all steps necessary to conform to the letter and spirit of this policy and to ensure that all Group employees are aware of its content and their obligations.

Statement of directors' responsibilities in relation to the Group financial statements

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LSL's financial statements are published on LSL's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of LSL's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LSL PROPERTY SERVICES PLC

We have audited the group financial statements of LSL Property Services plc for the year ended 31 December 2006 which comprise Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Statement of Group Recognised Income and Expense and the related notes 1 to 32. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of LSL Property Services plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

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 auditors' 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 group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 Business Review 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 director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Director's Report, the unaudited part of the director's remuneration report, the Chairman's Statement, Business Review, the Corporate Governance Report and the Corporate Social Responsibility Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group 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 group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 group financial statements.

Opinion

In our opinion :

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered auditor
Leeds

7 March 2007

Group income statement for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Revenue	3	**197,451**	134,871
Operating expenses:			
Employee costs		**99,953**	74,338
Establishment costs		**12,274**	9,596
Depreciation on property, plant and equipment	14	**2,706**	2,947
Other		**51,928**	31,065
		(166,861)	(117,946)
Other operating income	7	**1,763**	1,783
Group operating profit before exceptional costs and amortisation		**32,353**	18,708
Amortisation of intangibles	13	**(5,452)**	(4,688)
Exceptional costs (IPO costs)		**(3,514)**	–
Group operating profit	4	**23,387**	14,020
Finance income	3,5	**660**	1,248
Finance costs	6	**(4,824)**	(4,036)
Net financial costs		**(4,164)**	(2,788)
Profit before tax	8	**19,223**	11,232
Taxation	12	**(5,847)**	(3,218)
Profit for the year	23	**13,376**	8,014
Attributable to:			
Equity holders of the parent		**13,058**	8,018
Minority interests	23	**318**	(4)
		13,376	8,014
Earnings per share expressed in pence per share:			restated
Basic and diluted	10	**23.1**	16.0

Statement of group recognised income and expense for the year ended 31 December 2006

	2006	2005
	£'000	£'000
Total recognised income and expense for the year:		
Profit for the year attributable to:		
Equity holders of the parent	**13,058**	8,018
Minority interest	**318**	(4)
Total profit for the year	**13,376**	8,014

The accompanying notes are an integral part of these financial statements.

Group balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Goodwill	13	**65,463**	22,333
Other intangible assets	13	**17,669**	22,806
Property, plant and equipment	14	**4,321**	5,081
Financial assets	15	**148**	493
Other debtors	16	**229**	120
Total non-current assets		**87,830**	50,833
Current assets			
Trade and other receivables	16	**22,187**	23,772
Cash and cash equivalents	17	**578**	42,767
Total current assets		**22,765**	66,539
Total assets		**110,595**	117,372
Current liabilities			
Financial liabilities	19	**5,402**	38,468
Trade and other payables	18	**36,915**	29,267
Current tax liabilities		**5,575**	2,651
Provisions for liabilities and charges	20	**130**	59
Total current liabilities		**48,022**	70,445
Non-current liabilities			
Financial liabilities	19	**29,337**	29,086
Deferred tax liability	12	**3,424**	6,258
Provisions for liabilities and charges	20	**3,846**	2,848
		36,607	38,192
Net assets		**25,966**	8,735
Equity			
Share capital	22	**208**	100
Share premium account	23	**5,629**	400
Share-based payment reserve	23	**13**	–
Investment in treasury shares	23	**(298)**	–
Retained earnings	23	**20,414**	7,356
		25,966	7,856
Minority interests	23	**–**	879
Total equity		**25,966**	8,735

The financial statements were approved by the Board on 7 March 2007 and were signed on its behalf by:

D A Fielding Director **S D Embley** Director

The accompanying notes are an integral part of these financial statements.

Group cash flow statement for the year ended 31 December 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Cash generated from operating activities					
Group operating profit before exceptional costs and amortisation of intangibles			**32,353**		18,708
Adjustments to reconcile Group operating profit to net cash inflows from operating activities					
Depreciation	14	**2,706**		2,947	
Loss/(profit) on sale of property, plant and equipment		**21**		(7)	
Amounts written off available for sale financial assets		**345**		46	
		3,072		2,986	
Increase in trade and other receivables		**(4,381)**		(1,954)	
Increase in trade and other payables		**9,657**		3,017	
			8,348		4,049
Cash generated from operations			**40,701**		22,757
Interest paid		**(3,272)**		(3,274)	
Dividends paid on 'B' shares prior to listing		**(1,320)**		–	
Tax paid		**(5,852)**	**(10,444)**	(2,474)	(5,748)
Net cash from operating activities			**30,257**		17,009
Cash flows from investing activities					
Purchase of subsidiary undertakings, minority interest and commercial business	25	**(38,449)**		(16,614)	
Reimbursement of purchase consideration related to acquisitions in 2004		**–**		555	
Interest received		**660**		1,248	
Purchase of property, plant and equipment	14	**(2,073)**		(1,805)	
Proceeds from sale of property, plant and equipment		**6,134**		819	
Purchase of available for sale financial assets		**–**		(493)	
Net cash expended from investing activities			**(33,728)**		(16,290)
Cash flows from financing activities					
Repayment of long term loans		**(42,075)**		(7,300)	
Proceeds from long term loans		**33,414**		–	
Purchase of treasury shares		**(298)**		–	
IPO costs		**(3,514)**		–	
Net cash used in financing activities			**(12,473)**		(7,300)
Net decrease in cash and cash equivalents			**(15,944)**		(6,581)
Cash and cash equivalents at the beginning of the year			**16,522**		23,103
Cash and cash equivalents at the end of the year	17		**578**		16,522

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group financial statements of LSL Property Services plc for the year ended 31 December 2006 were authorised for issue by the board of the directors on 7 March 2007 and the balance sheet was signed on the board's behalf by D A Fielding and S D Embley. LSL Property Services plc is a listed company incorporated and domiciled in England & Wales and the Group operates a network of estate agencies, a surveying business, a conveyancing business and other related businesses.

The Group's financial statements have been prepared on a historical cost basis except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group are set out in note 2.

On 12 October 2006, the parent company changed its name from Lending Solutions Limited to LSL Property Services plc and obtained listing of its shares on the London Stock Exchange on 21 November 2006.

2. Accounting policies

Basis of preparation of financial information

The consolidated financial statements have been prepared on a historical cost basis, except for, derivative financial instruments and available-for-sale investments that have been measured at fair value.

The consolidated financial statements have also been prepared in accordance with IFRS as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2006. The Group's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Judgements and estimates

The preparation of financial information in conformity with IFRS as adopted by European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reporting amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key source of estimation uncertainty that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is the measurement and impairment of indefinite life intangible assets (including goodwill). The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 13).

Basis of consolidation

The Group financial statements incorporate the financial statements of LSL Property Services plc and the entities controlled by the Company (its subsidiaries) for the year ended 31 December 2006 and 31 December 2005. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The results of the subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the date control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the Group.

The purchase method of accounting is used for all acquisitions of subsidiaries (your-move.co.uk limited, esurv Limited, Reeds Rains Limited, Lending Solutions Limited, Lending Solutions Holdings Limited, Homefast Property Lawyers Limited, Homeinspectors.co.uk Limited, First Complete Limited, Linear Mortgage Network Holdings Limited, Linear Mortgage Network Limited, Linear Financial Services Holdings Limited, Linear Financial Services Limited and Chancellors Associates Limited).

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Group acquired or established the operations of your-move.co.uk Limited, esurv Limited and Lending Solutions Limited (formerly Broomco (3455)) during 2004.

2. Accounting policies (continued)

Basis of consolidation (continued)

The Group acquired or established the operations of Homefast Property Lawyers Limited, Reeds Rains Limited, Homeinspectors.co.uk Limited, First Complete Limited, Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited during the year ended 31 December 2005.

The above includes the results of Homefast Property Lawyers Limited for eleven months from 1 February to 31 December 2005, Reeds Rains Limited for three months from 1 October to 31 December 2005, Homeinspectors.co.uk Limited for five months from 1 August to 31 December 2005, First Complete Limited for nine months from 6 April to 31 December 2005 and Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited for two months from 1 November to 31 December 2005.

The Group acquired or established the operations of Linear Financial Services Holdings Limited, Linear Financial Services Limited and Chancellors Associates during the year ended 31 December 2006.

The above includes the results of Linear Financial Services Holdings Limited, Linear Financial Services Limited and Chancellors Associates for six months from 1 July to 31 December 2006.

Intangible assets

Goodwill

Business combinations on or after 1 July 2004 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 1 July 2004 is recorded at its carrying amount under UK GAAP and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. A previously recognised impairment loss with respect to goodwill is not reversed in later years.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed; and
- the correlation between development costs and future revenues has been established.

The carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.

Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite as follows:

Customer contracts:	
Estate agency customer contracts	– ten years
Surveying customer contracts	– between three and five years
Financial services customer contracts	– three years
General insurance renewal commission contracts	– between six and ten years
Lettings contracts	– fifteen months

2. Accounting policies (continued)

Other intangible assets (continued)

Amortisation (continued)

Order book:

Estate agency pipeline	– six months
Surveying pipeline	– one week
Estate agency register	– twelve months

Others:

Franchise agreements	– ten years
In-house software	– three years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Brand names are not amortised as the directors are of the opinion that they have an indefinite useful life. This is based on the expectation of the directors that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the businesses and the directors are confident that trademark registration renewals will be filed at the appropriate time and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brand.

The carrying value of intangible assets with indefinite useful life is reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Office equipment, fixtures and fittings	– over three to seven years
Computer equipment	– over three years
Motor vehicles	– over four years
Leasehold improvements	– over the shorter of the lease term or ten years

Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and

2. Accounting policies (continued)

Income taxes (continued)

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised:

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Share-based payment transactions

The share option programme allows group employees to acquire shares of the Company. The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity in case of equity settled schemes. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is recognised irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Treasury shares

The Group has an employee share trust (ESOT) for the granting of group shares to executives and senior employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. The finance costs and administration costs relating to the ESOT are charged to the income statement. Dividends earned on shares held in the trust have been waived. The shares are ignored for the purposes of calculating the Group's earnings per share.

Leases

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Pensions

The Group operates a defined contribution pension scheme for employees in certain Group companies. The assets of the scheme are invested and managed independently of the finances of the Group. The pension cost charge represents contributions payable in the year.

2. Accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

The Group's accounting policy for each category of financial instruments is as follows:

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as held to maturity, loan and receivables or fair value through profit or loss. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Where a reliable indicator of fair value cannot be obtained the assets are valued at cost.

Cash and short term deposits

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity period of three months or less.

For the purposes of the consolidated cash flow statement, cash and short term deposits consist of cash and short term deposits net of outstanding bank overdrafts.

Trade receivables

Trade receivables do not carry any interest and are stated at their original invoiced value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade receivables generally have four to seven day payment terms in the estate agency business and thirty days in the surveying business. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Trade payables

Trade payables do not carry any interest and are stated at their original invoice value.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Finance costs comprise interest payable on borrowings calculated at the effective interest rate method and recognised on an accruals basis, together with dividends paid.

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate caps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

2. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments (continued)

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity. When an unrecognised firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Impairment of financial assets

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Classification of shares as debt or equity

When shares are issued, any component that creates a financial liability of the company or Group is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

2. Accounting policies (continued)

Revenue Recognition (continued)

Rendering of services

Revenue from the exchange fees in the estate agency business is recognised by reference to the legal exchange date of the housing transaction. Revenue from the supply of surveying services is recognised upon the completion of the professional survey by the surveyor.

Financial services income

Revenue from mortgage procuration fees is recognised by reference to the completion date of the mortgage on the housing transaction. Revenue from policy sales is recognised by reference to the date that the policy is accepted by the insurer.

Interest income

Revenue is recognised as interest accrues (using the effective interest method – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income

Rental income including the effect of lease incentives from sub-let properties is recognised on a straight line basis over the lease term.

Exceptional items

The group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations which are not effective at the balance sheet date or have an effective date after the date of these financial statements:

International Accounting Standards (IAS / IFRSs)

New standards

		Effective date
IFRS 7	Financial Instruments: Disclosures*	1 January 2007
IFRS 8	Operating Segments	1 January 2009

Amendments to standards

IFRS 4	Revised Guidance on Implementing IFRS 4 Insurance Contracts	†
IAS 1	Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures*	1 January 2007

* Adopted for use in the European Union
† Applies when an entity adopts IFRS 7 Financial Instruments: Disclosures

International Financial Reporting Interpretations Committee (IFRIC)

New interpretations

		Effective date
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	1 March 2006
IFRIC 8	Scope of IFRS 2*	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives*	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

* Adopted for use in the European Union

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

3. Revenue

Revenue represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax. The revenue and pre-tax income is attributable to the continuing activity of estate agency and related activities and the provision of surveying and valuation services on residential property. The majority of the revenue arises in the United Kingdom.

Revenue disclosed in the income statement is analysed as follows:

	2006 £'000	2005 £'000
Revenue from services	**197,451**	134,871
Revenue	**197,451**	134,871
Rental income	**1,218**	1,073
Finance revenue	**660**	1,248
Total revenue	**199,329**	137,192

4. Segment reporting

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information (geographic segment) has not been reported separately as the majority of the revenue and expense arises in the United Kingdom and all assets are situated in the United Kingdom.

The estate agency segment provides services related to housing transactions via a network of high street branches.

The surveying and valuation segment provides a professional survey service of domestic properties to various lending corporations.

The financial services segment sells mortgages for a number of lenders and sells life assurance and critical illness policies, etc for a number of insurance companies via the estate agency branch network.

Further details of the Group's primary segments are detailed below:

Year ended 31 December 2006

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	102,573	74,041	20,837	–	**197,451**
Segmental result: – before exceptional costs and amortisation of intangibles	13,372	21,008	(764)	(1,263)	**32,353**
– after exceptional costs and amortisation of intangibles	11,669	18,261	(1,766)	(4,777)	**23,387**
Finance income					**660**
Finance costs					**(4,824)**
Profit before tax					**19,223**
Income taxes					**(5,847)**
Profit for the year					**13,376**

4. Segment reporting (continued)

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Balance sheet information					
Segment assets	62,372	28,552	16,800	2,871	**110,595**
Segment liabilities	(16,175)	(19,625)	(4,267)	(44,562)	**(84,629)**
Net assets/(liabilities)	46,197	8,927	12,533	(41,691)	**25,966**
Other segment items					
Capital expenditure	1,657	306	110	–	**2,073**
Acquisition of property, plant and equipment on acquisition of subsidiaries	–	27	16	–	**43**
Intangibles identified as part of IFRS 3 purchase price allocation	–	153	162	–	**315**
Depreciation	(2,175)	(454)	(77)	–	**(2,706)**
Amortisation of intangible assets	(1,703)	(2,747)	(1,002)	–	**(5,452)**
Professional indemnity claim provision	–	(1,882)	–	–	**(1,882)**
Onerous lease provision	(629)	–	–	–	**(629)**
Impairment of other debtors	(62)	–	–	–	**(62)**
Impairment of available for sale financial assets	(345)	–	–	–	**(345)**

Year ended 31 December 2005

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	63,842	57,018	14,011	–	**134,871**
Segmental result: – before exceptional costs and amortisation of intangibles	3,687	17,386	(1,954)	(411)	**18,708**
– after exceptional costs and amortisation of intangibles	2,283	14,639	(2,491)	(411)	**14,020**
Finance income					**1,248**
Finance costs					**(4,036)**
Profit before tax					**11,232**
Income taxes					**(3,218)**
Profit for the year					**8,014**

4. Segment reporting (continued)

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Balance sheet information					
Segment assets	38,368	22,514	12,029	44,461	**117,372**
Segment liabilities	(14,341)	(15,000)	(1,201)	(78,095)	**(108,637)**
Net assets/(liabilities)	24,027	7,514	10,828	(33,634)	**8,735**
Other segment items					
Capital expenditure	1,456	311	38	–	**1,805**
Acquisition of property, plant and equipment on acquisition of subsidiaries	6,855	42	57	–	**6,954**
Intangibles identified as part of IFRS 3 purchase price allocation	3,495	–	3,796	–	**7,291**
Depreciation	(2,395)	(529)	(23)	–	**(2,947)**
Amortisation of intangible assets	(1,404)	(2,747)	(537)	–	**(4,688)**
Professional indemnity claim provision	–	(896)	–	–	**(896)**
Onerous lease provision	(246)	–	–	–	**(246)**

5. Finance income

	2006 £'000	2005 £'000
Interest income:		
Interest received on tax refunds	**16**	–
Interest receivable on funds invested	**644**	1,248
	660	1,248

6. Finance costs

	2006 £'000	2005 £'000
Interest:		
Commercial loan	**36**	1
Interest paid to clients	–	26
Bank interest	**1,168**	–
Interest on bank loans repayable within five years	**2,300**	2,846
Interest on bank loans repayable after five years	–	1,163
Dividend paid on 'B' shares prior to listing	**1,320**	–
	4,824	4,036

Interest on bank loans includes the write off of unamortised loan arrangement fees of £780,000 (2005: nil).

7. Other operating income

	2006 £'000	2005 £'000
Rent receivable	**1,218**	1,073
Other	**545**	710
	1,763	1,783

8. Profit before tax

Profit before tax is stated after charging/(crediting):

	2006 £'000	2005 £'000
Auditors' remuneration (note 9)	**688**	232
Operating lease rentals:		
Land and buildings	**8,170**	6,990
Plant and machinery	**1,858**	1,285
Depreciation of property, plant and equipment	**2,706**	2,947
Amortisation of intangible assets	**5,452**	4,688
Rents receivable	**(1,218)**	(1,073)
Loss/(profit) on disposal of property, plant and equipment	**21**	(7)
Impairment of other debtors	**62**	–
Impairment of available for sale financial assets	**345**	46

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2006 £'000	Restated 2005 £'000
Audit of the financial statements†	**42**	15
Other fees to auditors:		
– local statutory audits for subsidiaries	**83**	92
– other services supplied pursuant to legislation	**468**	6
– corporate finance services	**–**	119
– other services	**95**	–
	688	232

† £42,000 (2005: £15,000) of this relates to the Company.

10. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	Profit after tax £'000	**Weighted average number of shares**	**2006 Per share Amount *Pence***	Profit after tax £'000	Weighted average number of shares	Restated 2005 Per share Amount *Pence*
Basic EPS	**13,058**	**56,622,461**	**23.1**	8,018	50,000,000	16.0
Effect of dilutive share options	**–**	**14,303**	**–**	–	–	–
Diluted EPS	**13,058**	**56,636,764**	**23.1**	8,018	50,000,000	16.0

On 25 July 2006, the number of shares in issue increased to 1,037,158 of 10p each. On 31 October 2006, the ordinary shares of 10p each were subdivided into ordinary shares of 0.2p each and a further 2,051,050 ordinary shares of 0.2p each were issued and the total number of shares increased to 104,158,950.

The comparative figure for 2005 has been restated to take account of the subdivision of the ordinary shares into 0.2p shares as required by IAS 33 "Earnings per Share".

The Directors consider that the adjusted earnings shown below give a better and more consistent indication of the Group's underlying performance

	2006 £'000	2005 £'000
Profit after tax	**13,058**	8,018
Adjusted after tax for:		
Exceptional costs	**2,460**	–
Amortisation of intangibles	**3,816**	3,282
Dividend on 'B' ordinary shares	**1,320**	–
Share-based payment	**9**	–
Adjusted profit after tax	**20,663**	11,300

11. Directors and employees

Remuneration of directors

	2006 £'000	2005 £'000
Directors' emoluments	**812**	618
Contributions to money purchase pension schemes	**30**	28
	842	646

Consultancy fees and expenses of £21,773 (2005: £12,475) were also paid by the Group during the year.

The number of directors who were members of Group money purchase pension schemes during the year totalled 3 (2005: 3).

The remuneration of the highest paid director amounted to £295,009 (2005: £233,555) excluding pension costs. Group contributions to money purchase pension schemes for that director amounted to £12,648 (2005: £12,153) in the year.

Directors' contributions to pension schemes are matched by the Group up to a maximum of 10% of pensionable earnings.

11. Directors and employees (continued)

Employee numbers and costs

The Group employs staff in its branches and head offices. Aggregate payroll costs of these employees were:

	2006 £'000	2005 £'000
Wages and salaries	**88,983**	66,292
Social security costs	**9,465**	6,650
Pension costs	**1,492**	1,396
Share-based payment expense (see below)	**13**	–
	99,953	74,338

The monthly staff numbers (including directors) during the year averaged 3,351 (2005: 2,969).

	2006 £'000	2005 £'000
Estate agency and related activities	**2,193**	1,984
Surveying and valuation services	**813**	683
Financial services	**345**	302
	3,351	2,969

All staff are employed in the provision of estate agency and related activities, the provision of surveying and valuation services on residential property and the provision of financial services.

Share-based payments

The Group operates a Long Term Incentive Scheme (an equity-settled share-based remuneration scheme) for certain employees. Under the Long Term Incentive Scheme, the options vest if the individual remains an employee of the Group after a three year period, unless the individual has left under certain 'good leaver' terms in which case the options may vest earlier.

	2006		2005	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	–	–	–	–
Granted during the year	–	**130,512**	–	–
Outstanding at 31 December	–	**130,512**	–	–

There were no options exercisable at the end of the year (2005: none).

The weighted average fair value of options granted during the year was £1.85.

The following information is relevant in the determination of the fair value of shares awarded during the year under the equity-settled share-based remuneration scheme operated by the Group.

Equity-settled

	2006	2005
Option pricing model used	**Black Scholes**	N/A
Weighted average share price at grant date (£)	**2.17**	–
Exercise price (£)	**nil**	–
Weighted average contractual life (years)	3 **years**	–
Weighted average remaining contractual life (years)	**2.96**	–
Expected volatility	**35**	–
Expected dividend growth rate	**3%**	–
Risk-free interest rate	**5%**	–

The volatility assumption, measured at the standard deviation of expected share price returns, is based on statistical analysis of competitor ratios.

The dividend yield assumption is based on the fact that the shares awarded are not eligible to receive dividends until the end of the vesting period.

12. Taxation

(a) Tax on profit

Tax charged in the profit and loss account comprises:

	2006 £'000	2005 £'000
UK corporation tax – current year	**8,918**	5,276
– tax overprovided in prior year	**(142)**	(321)
– utilisation of tax losses	–	(248)
	8,776	4,707
Deferred tax:		
Origination and reversal of temporary differences	**(2,929)**	(1,489)
Total tax in income statement	**5,847**	3,218

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is higher (2005: lower) than the standard UK corporation tax rate, because of the following factors:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	**19,223**	11,232
Profit on ordinary activities multiplied by rate of corporation tax rate in the UK of 30%	**5,767**	3,370
Disallowable expenses	**1,564**	461
Capital allowances in excess of depreciation (unrecognised)	–	(72)
Movement in other unrecognised temporary differences	–	(155)
Amortisation of intangible assets	–	68
Recognition of deferred tax asset on temporary differences previously not recognised	**(1,296)**	–
Utilisation of previously unrecognised tax losses	–	(248)
Other	**(46)**	115
	5,989	3,539
Prior period adjustments – current tax	**(142)**	(321)
Total taxation charge	**5,847**	3,218

(c) Factors that may affect future tax charges (unrecognised)

	2006 £'000	2005 £'000
Property, plant and equipment temporary differences	**36**	2,691
Other temporary differences	**240**	912
Losses	**546**	2,400
	822	6,003

The deferred tax assets in respect of property, plant and equipment temporary differences, other temporary differences and losses may be recoverable in the future and this is dependent on one of the subsidiary companies generating taxable profits sufficient to allow the utilisation of these amounts. These deferred tax assets can not be offset against profits elsewhere in the Group as they relate to losses brought forward which can only be offset in the same company. There is no time limit for utilisation of the above tax losses and other temporary differences.

12. Taxation (continued)

(d) Deferred tax

An analysis of the movements in deferred tax is as follows:

	2006 £'000	2005 £'000
Deferred tax liability at 1 January	**6,258**	5,601
Deferred tax liability on recognition of separately identifiable intangible assets on acquisition of subsidiaries	**95**	2,146
Deferred tax credit in income statement for the year (note 12a)	**(2,929)**	(1,489)
Deferred tax liability at 31 December	**3,424**	6,258
Analysed as:		
Depreciation in excess of capital allowances	**(1,154)**	(162)
Deferred tax liability on separately identifiable intangible assets (other than goodwill) not deductible for tax purposes	**5,251**	6,801
Other short-term temporary differences	**(673)**	(381)
	3,424	6,258

Deferred tax credit in income statement relates to the following:

	2006 £'000	2005 £'000
Amortisation of non-deductible intangible assets	**1,645**	1,406
Depreciation in excess of capital allowance	**992**	80
Other temporary differences	**292**	3
	2,929	1,489

13. Intangible assets

Goodwill

	2006 £'000	2005 £'000
Cost		
At 1 January	**22,333**	11,148
Acquisition of subsidiary undertaking	**727**	11,610
Acquisition of surveying business	**1,810**	130
Acquisition of minority interest in existing subsidiaries	**40,593**	–
Reimbursement of purchase consideration related to acquisitions in 2004	**–**	(555)
At 31 December	**65,463**	22,333

	2006 £'000	2005 £'000
Carrying amount of goodwill by operating unit		
your-move.co.uk (estate agency unit)	**40,722**	3,916
Reeds Rains (estate agency unit)	**15,243**	11,456
Homefast (estate agency unit)	**130**	130
	56,095	15,502
Chancellors Associates (surveying unit)	**1,810**	–
esurv (surveying unit)	**6,677**	6,677
	8,487	6,677
Linear Mortgage Network (financial services unit)	**154**	154
Linear Financial Services (financial services unit)	**727**	–
	881	154
	65,463	22,333

The acquisition of minority interest is not a business combination and there is no specific accounting prescribed in IFRS for such a transaction. The group has elected to adopt the 'Parent entity extension method' and the entire difference between the cost of acquisition and the minority interest acquired is reflected as goodwill.

13. Intangible assets (continued)

Goodwill (continued)

Impairment of goodwill and other intangibles with indefinite useful lives

The carrying amount of goodwill by operating unit is given above. The carrying amount of brand by operating unit is as follows:

	2006 £'000	2005 £'000
your-move.co.uk (estate agency unit)	**2,510**	2,510
Reeds Rains (estate agency unit)	**1,241**	1,241
Total estate agency unit	**3,751**	3,751
esurv (surveying unit)	**1,281**	1,281
Chancellors Associates (surveying unit)	**153**	–
Total surveying unit	**1,434**	1,281
Financial services unit	**38**	–
	5,223	5,032

Goodwill acquired through business combinations and brands has been allocated for impairment testing purposes to three cash-generating units as follows:

- Estate agency cash-generating unit;
- Surveying cash-generating unit; and
- Financial services unit.

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Estate agency cash-generating unit

The recoverable amount of the Estate Agency unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three-year period. The discount rate applied to cash flow projections is 15% and cash flows beyond the 3-year budget are extrapolated using a 2% growth rate. This is based on the directors' opinion that the Estate Agency unit's market share can be increased by 2% (including inflation).

Surveying cash-generating unit

The recoverable amount of the Surveying unit is also determined on a value in use basis using cash flow projections based on financial budgets approved by the board covering a three-year period. The discount rate applied to the cash flow projections is 12.3%. The growth rate used to extrapolate the cash flows of the Surveying unit beyond the three-year period is 1.5%. This is based on the directors' opinion that the Surveying unit's market share can not be increased and therefore the growth rate is an inflationary increase only.

Financial services cash-generating unit

The recoverable amount of the Financial Services unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three-year period. The discount rate applied to cash flow projections is 15% and cash flows beyond the 3-year budget are extrapolated using a 2% growth rate. This is based on the directors' opinion that the Financial Services unit's market share can be increased by 2%.

Key assumptions used in value in use calculations

The calculation of value in use for both estate agency, surveying and financial services units is most sensitive to the following assumptions:

- gross margin
- discount rates
- market share
- growth rate used to extrapolate cash flows beyond the budget period

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. A factor of 2% per annum was applied for estate agency, 1.5% per annum for the surveying unit and 2% per annum for the financial services unit. This is based on the opinion of the directors.

13. Intangible assets (continued)

Goodwill (continued)

Key assumptions used in value in use calculations (continued)

Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. The rates applied in the estate agency, surveying and financial services unit budgets are based on the spread between current ROCE and base interest rates, adjusted by the forward interest rates at the end of the budget period. Forward rates are obtained from market quotations.

Market share assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the unit's relative position to its competitors might change over the budget period. Management expects the Group's share of the surveying market to be stable over the budget period and expect a marginal growth in the estate agency and financial services units.

Growth rate estimates are based on management estimates. Management is confident that the growth rate would be achieved based on past experience.

The results of the impairment tests confirmed that there had been no impairment to the carrying amount of goodwill held on the balance sheet.

Sensitivity to changes in assumptions
With regard to the assessment of value in use for each of the above units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

Other intangible assets

As at 31 December 2006:

	Brand Names £'000	Customer Contracts £'000	General Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Others* £'000	Total £'000
Cost							
At 1 January 2006	5,032	14,458	5,612	1,450	3,435	1,127	31,114
Arising on acquisition of subsidiaries	191	124	–	–	–	–	315
At 31 December 2006	**5,223**	**14,582**	**5,612**	**1,450**	**3,435**	**1,127**	**31,429**
Aggregate amortisation and impairment							
At 1 January 2006	–	4,073	544	1,086	2,251	354	8,308
Charge for the year	–	2,883	745	364	1,184	276	5,452
At 31 December 2006	**–**	**6,956**	**1,289**	**1,450**	**3,435**	**630**	**13,760**
Carrying amount							
At 31 December 2006	**5,223**	**7,626**	**4,323**	**–**	**–**	**497**	**17,669**

* Others relate to in-house software and franchise agreements. The lettings contracts and order book pipelines and registers acquired on acquisition in July 2004 were fully amortised by the end of 2006.

As at 31 December 2005:

	Brand Names £'000	Customer Contracts £'000	General Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Others* £'000	Total £'000
Cost							
At 1 January 2005	3,791	13,573	2,855	996	1,622	986	23,823
Arising on acquisitions of subsidiaries	1,241	885	2,757	454	1,813	141	7,291
At 31 December 2005	**5,032**	**14,458**	**5,612**	**1,450**	**3,435**	**1,127**	**31,114**
Aggregate amortisation and impairment							
At 1 January 2005	–	1,343	143	398	1,622	114	3,620
Charge for the year	–	2,730	401	688	629	240	4,688
At 31 December 2005	**–**	**4,073**	**544**	**1,086**	**2,251**	**354**	**8,308**
Carrying amount							
At 31 December 2005	**5,032**	**10,385**	**5,068**	**364**	**1,184**	**773**	**22,806**
At 31 December 2004	**3,791**	**12,230**	**2,712**	**598**	**–**	**872**	**20,203**

13. Intangible assets (continued)

Other intangible assets (continued)

The brand value relates to the following:

- your-move.co.uk, a network of estate agencies and to esurv, a surveying company which were acquired by the Group in 2004,
- Reeds Rains, a network of estate agencies which were acquired by the Group in October 2005,
- Linear Financial Services, a financial services intermediary company which was acquired by the Group in July 2006, and
- Chancellors Associates, a surveying business which was acquired by the Group in July 2006.

The businesses are run as separate reporting units within the Group. There have been no fundamental changes to the manner in which the businesses have been run since their acquisition and therefore the results of the businesses are considered to be derived from the brand names nationally.

All amortisation charges have been treated as an expense in the income statement. Brand names are not amortised as the directors are of the opinion that they have an indefinite useful life. This is based on the expectation of the directors that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the businesses and the directors are confident that trademark registration renewals will be filed at the appropriate time and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brand.

Carrying amount of brand value by operating unit

	2006 £'000	2005 £'000
Estate agency	**3,751**	3,751
Surveying	**1,434**	1,281
Financial services	**38**	–
	5,223	5,032

14. Property, plant and equipment

As at 31 December 2006

	Land and buildings £'000	**Motor vehicles £'000**	**Fixtures, fittings and computer equipment £'000**	**Total £'000**
Cost				
At 1 January 2006	3,595	425	15,023	19,043
Additions	45	–	2,028	2,073
Acquired on acquisition of subsidiaries	–	–	43	43
Disposals	(16)	(288)	(4,552)	(4,856)
At 31 December 2006	**3,624**	**137**	**12,542**	**16,303**
Depreciation				
At 1 January 2006	2,872	306	10,784	13,962
Charge for the year	386	75	2,245	2,706
Disposals	(15)	(260)	(4,411)	(4,686)
At 31 December 2006	**3,243**	**121**	**8,618**	**11,982**
Carrying amount				
At 31 December 2006	**381**	**16**	**3,924**	**4,321**

14. Property, plant and equipment (continued)

As at 31 December 2005

	Land and buildings £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost				
At 1 January 2005	4,188	449	9,504	14,141
Acquisition of subsidiaries	5,632	–	1,322	6,954
Additions	57	–	1,748	1,805
Disposals	(6,347)	(24)	–	(6,371)
At 31 December 2005	**3,530**	**425**	**12,574**	**16,529**
Depreciation				
At 1 January 2005	2,356	182	6,019	8,557
Charge for the year	487	144	2,316	2,947
Disposals	(36)	(20)	–	(56)
At 31 December 2005	**2,807**	**306**	**8,335**	**11,448**
Carrying amount				
At 31 December 2005	**723**	**119**	**4,239**	**5,081**
At 31 December 2004	1,832	267	3,485	5,584

The net book value of land and buildings can be analysed as follows:

	2006 £'000	2005 £'000
Leasehold improvements	**381**	723
	381	723

15. Financial assets

Available-for-sale investments	2006 £'000	2005 £'000
At 1 January and 31 December	**493**	–
Additions	**–**	493
	493	493
Less: Impairment provision	**(345)**	–
Carrying value	**148**	493

Available-for-sale financial assets consist of investments in ordinary shares, which by their nature have no fixed maturity date or coupon rate.

The above investments are in unlisted equity instruments and these are carried at cost as the market value cannot be reliably measured.

On 18 August 2005, the Group acquired 67 ordinary shares of £1 each in Knight & Co Limited for a consideration of £45,000. This amounted to a 40% shareholding in that company.

On 15 November 2005, the Group acquired 180 ordinary shares of £1 each in GPEA Limited for a consideration of £447,761. This amounted to a 15.2% shareholding in that company.

In 2003, the Group acquired 84 'A' ordinary share of £0.01 each in Hometrack Data Systems Limited for a consideration of £1. This amounted to a 14.19% shareholding in that company.

In 2005, the Group was awarded units in Openwork Partnership LLP in return for the use of the partnership's services. This amounted to a 2% stake in the partnership.

Management have reviewed the carrying amount of the investments for impairment at 31 December 2006 by reference to the present value of future cash flows and concluded that the investments were impaired by £345,000.

16. Trade and other receivables

	2006 £'000	2005 £'000
Current		
Trade receivables	**18,011**	14,123
Other debtors	**27**	6,031
Prepayments and accrued income	**4,149**	3,618
	22,187	23,772
Non-current		
Other debtors	**83**	120
Prepayments and accrued income	**146**	–
	229	120

17. Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand (set off against RCF)	–	25,207
Short – term deposits	**578**	17,560
	578	42,767

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term deposits are made for varying periods of between one day and three days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £0.6m (2005: £42.8m). At 31 December 2006, the Group had available £46.7m of undrawn committed borrowing liabilities in respect of which all conditions precedent had been met (2005: £8m).

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2006 £'000	2005 £'000
Cash at bank and in hand	–	25,207
Short – term deposits	**578**	17,560
	578	42,767
Bank overdrafts	–	(26,245)
	578	16,522

18. Trade and other payables

	2006 £'000	2005 £'000
Trade payables	**5,856**	3,450
Other taxes and social security payable	**6,591**	5,865
Other creditors	**566**	701
Accruals	**23,902**	19,251
	36,915	29,267

19. Financial liabilities

	2006 £'000	2005 £'000
Current		
Bank overdrafts	–	26,245
Bank loans due within one year – secured	**4,874**	9,645
Other loans due within one year – secured (B loan notes)	**472**	2,578
Other loans due within one year – unsecured	**56**	–
	5,402	38,468
Non-current		
Bank loans – secured	**28,540**	26,397
Other loans – secured (B loan notes)	–	2,589
Other loans due – unsecured	**797**	–
'B' ordinary shares	–	100
	29,337	29,086

Arrangement fees of £780,000 have been written off to the income statement in respect of the loans following the repayment of the loans in July 2006.

The bank loans totalling £33.4m (2005: loans totalling £25.9m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions Limited, First Complete Limited, Linear Mortgage Network Holdings Limited, Linear Mortgage Network Limited, Linear Financial Services Holdings Limited, Linear Financial Services Limited, Homeinspectors.co.uk Limited and Chancellors Associates Limited. A loan of £0.5m (2005: £5.2m) is also guaranteed by the Group's bankers, Barclays Bank plc.

The bank loans relate to the revolving credit facility which is renewable on a monthly basis and can be renewed for any amount as long as this does not exceed the maximum £79.5m facility. The banking facility expires in July 2007 but can be extended at that date for a further four years until July 2010. There is also a further extension available in July 2008 to extend the facility until July 2011.

Interest payable on the revolving credit facility amounted to £1.2m (2005: £0.015m). The interest rate applicable to the facility is LIBOR plus a margin rate of 0.75. The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

An unsecured bank loan of £116,000 is outstanding to Barclays Bank plc by a group company. This is repayable over five years until June 2010 and incurs interest at a fixed rate of 10%.

An unsecured loan of £134,000 is outstanding to a director of a group company by a group company. This is repayable when funds permit and incurs interest at a fixed rate of 6.5%.

An unsecured loan of £601,000 is outstanding to a customer by a group company. This is repayable when funds permit and incurs interest at the current bank base rate.

Loan notes which were guaranteed by a debenture secured over the assets of one of the subsidiaries, your-move.co.uk limited were repaid in July 2006 (2005: £10.2m).

'B' ordinary shares were classified as debt in 2005 have been reclassified as share capital as the loan debt these shares related to was repaid in July 2006.

Bank loans and loan notes in issue at July 2006 were repaid in full in July 2006.

20. Provisions for liabilities and charges

	2006 Professional indemnity claim provision £'000	2006 Onerous leases £'000	2006 Total £'000	2005 Professional indemnity claim provision £'000	2005 Onerous leases £'000	2005 Total £'000
Balance at 1 January	**2,647**	**260**	**2,907**	3,123	895	4,018
Amounts utilised	**(697)**	**(91)**	**(788)**	(756)	(154)	(910)
Amounts released	**(595)**	**(59)**	**(654)**	(616)	(727)	(1,343)
Provided in financial year	**1,882**	**629**	**2,511**	896	246	1,142
Balance at 31 December	**3,237**	**739**	**3,976**	2,647	260	2,907
Current	**–**	**130**	**130**	–	59	59
Non-current	**3,237**	**609**	**3,846**	2,647	201	2,848
	3,237	**739**	**3,976**	2,647	260	2,907

The professional indemnity claim provision relates to ongoing normal legal claims and is the directors' best estimate of the likely outcome of such claims. The provision will be utilised as individual claims are settled. It is not possible to estimate the payout within one year and therefore all the provision has been classified as non-current.

The provision for lease obligations relates to obligations under leases on vacant properties. The provision is expected to be fully utilised by September 2013.

21. Obligations under leases

Operating leases

The Group had annual commitments in respect of non-cancellable operating leases for which no provision has been made in these financial statements. Future minimum rentals payable under these operating leases are as follows:

	2006 Land and buildings £'000	2006 Plant and machinery £'000	2006 Total £'000	2005 Land and buildings £'000	2005 Plant and machinery £'000	2005 Total £'000
Not later than one year	**7,139**	**2,010**	**9,149**	6,488	1,515	8,003
After one year but not more than five years	**19,715**	**2,533**	**22,248**	18,269	1,515	19,784
After five years	**15,388**	**2**	**15,390**	13,990	–	13,990
	42,242	**4,545**	**46,787**	38,747	3,030	41,777

The Group had annual commited revenue in respect of non-cancellable operating leases for which no accrual has been made in these financial statements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2006 Land and buildings £'000	2005 Land and buildings £'000
Not later than one year	**355**	379
After one year but not more than five years	**587**	644
After five years	**539**	651
	1,481	1,674

22. Share capital

	2006 Shares	2006 £'000	2005 Shares	2005 £'000
Authorised:				
'A' ordinary shares of 10p each	–	–	1,083,332	108
'B' ordinary shares of 10p each	–	–	1,000,000	100
Ordinary shares of 0.2p each	500,000,000	1,000	–	–
	500,000,000	1,000	2,083,332	208
Issued and fully paid:				
At 1 January	1,000,000	100	1,000,000	100
'B' Ordinary shares converted prior to listing	1,000,000	100	–	–
Share split	100,065,742	–	–	–
Issue of shares	2,093,208	8	–	–
At 31 December	104,158,950	208	1,000,000	100

The 1,000,000 'B' ordinary shares were classified as debt in 2005. They have been reclassified as share capital as they were converted into ordinary shares and were not entitled to any further cumulative dividend.

On 25 July 2006, the Company issued 5,000 'A' ordinary shares of 10p each and 5,000 'B' ordinary shares of 10p each in exchange for the minority interest (8.33%) in a subsidiary company, Lending Solutions Holdings Limited.

On 25 July 2006, the Company issued 32,158 'A' ordinary shares of 10p each in exchange for a 6.4852% shareholding in a subsidiary company, Reeds Rains Limited.

On 31 October 2006, the ordinary shares of 10p each were subdivided into one class of 0.2p shares.

On 21 November 2006, the Company issued 2,051,050 ordinary shares of 0.2p each in exchange for the return of warrants.

23. Reconciliation of movements in equity

	Share capital £'000	Share premium Account £'000	Share based payment reserve £'000	Investment in treasury shares £,000	Retained earnings £'000	Total equity £'000	Minority interests £'000	Total £'000
At 1 January 2005	100	400	–	–	(662)	(162)	–	(162)
On acquisition of subsidiaries	–	–	–	–	–	–	883	883
Profit for the year	–	–	–	–	8,018	8,018	(4)	8,014
At 1 January 2006	100	400	–	–	7,356	7,856	879	8,735
Debt reclassification	100	–	–	–	–	100	–	100
Issue of shares	8	5,229	–	–	–	5,237	–	5,237
Purchase of shares	–	–	–	(298)	–	(298)	–	(298)
On acquisition of subsidiary	–	–	–	–	–	–	–	–
Acquisition of minority interest	–	–	–	–	–	–	(1,197)	(1,197)
Share-based awards	–	–	13	–	–	13	–	13
Profit for the year	–	–	–	–	13,058	13,058	318	13,376
Balance at 31 December 2006	208	5,629	13	(298)	20,414	25,966	–	25,966

Share premium

The amount subscribed for share capital in excess of nominal value less any costs attributable to the issue of new shares.

Share-based payment reserve

This represents the amount provided in the year in respect of share awards.

Investment in treasury shares

The Company has an employee share trust (ESOT) for the granting of group shares to executives and senior employees. Shares in the Company held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on shares held in the trust have been waived. The Company acquired 130,512 of its own shares via the trust in November 2006. The total amount paid to acquire the shares was £297,920. The market value of the shares held by ESOT on 22 February 2007 was £313,000. The nominal value of each share is 0.2p.

24. Pensions costs and commitments

The Group operates defined contribution pension schemes for all its directors and certain employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2006, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits.

The Group's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Group left the Aviva Group in 2004) throughout 2006, were 10% pensionable salaries where members contribute and the cost of the death-in-service benefits.

Total contributions to the defined contribution schemes in the year were £1.5m (2005: £1.4m).

There was an outstanding amount of £212,000 in respect of pensions as at 31 December 2006 (2005: £219,000).

25. Acquisitions during the year

Year ended 31 December 2006

The Group acquired the operations of Linear Financial Services Holdings Limited, Linear Financial Services Limited and Chancellors Associates Limited during this financial year. The above includes the results of Linear Financial Services Holdings Limited and Linear Financial Services Limited for six months from 1 July to 31 December 2006 and Chancellors Associates for six months from 1 July to 31 December 2006.

On 5 July 2006 the Group acquired 56% of the share capital of Linear Financial Services Holdings Limited, a mortgage intermediary business for £6 in cash through a group company. In the year ended 31 December 2006 the Linear Financial Services Group contributed a loss of £13,000 to consolidated profit after tax.

On 5 July 2006 the Group acquired 100% of the share capital of Chancellors Associates Limited through a group company. Chancellors Associates Limited then purchased selected assets and liabilities of a surveying business for £1.9m in cash. In the year ended 31 December 2006 the company contributed a profit of £102,000 to consolidated profit after tax.

On 25 July 2006, the Group acquired the minority interest (8.33%) in a subsidiary company, Lending Solutions Holdings Limited for £34.7m in cash and the issue of 10,000 shares in the parent company.

On 25 July 2006, the Group acquired a 6.4852% shareholding in a subsidiary company, Reeds Rains Limited for £300,000 in cash and the issue of 32,158 shares in the parent company.

On 29 September 2006, the Group acquired the remaining 3.704% shareholding in a subsidiary company, Reeds Rains Limited for £1.5m in cash.

The acquisition of the Linear Financial Services Holdings Limited group had the following effect on the Group's assets and liabilities:

	Book Value £'000	Fair value Adjustments £'000	Fair value £'000
Intangible assets	–	162	**162**
Property, plant and equipment	16	–	**16**
Trade and other receivables	92	–	**92**
Cash and cash equivalents	51	–	**51**
Trade and other payables	(357)	–	**(357)**
Financial liabilities	(655)	–	**(655)**
Corporation tax debtor	12	–	**12**
Deferred tax liability	–	(48)	**(48)**
Net liabilities	**(841)**	**114**	**(727)**
Goodwill arising on acquisition			**727**
Cash			–

The goodwill of £727,000 comprises the value of expected synergies arising from the acquisition.

25. Acquisitions during the year (continued)

The summarised income statement for the year ended 31 December 2006 is as follows:

	Linear Financial Services Group £'000
Revenue	**1,088**
Operating loss	**(20)**
Finance income	–
Finance costs	**(40)**
Loss before tax	**(60)**
Current tax liabilities	**18**
Loss for the year ended 31 December 2006	**(42)**

The revenue from the date of acquisition on 1 July to 31 December 2006 totalled £612,984 and the loss for that period after tax totalled £12,927.

The acquisition of the surveying business by Chancellors Associates Limited had the following effect on the Group's assets and liabilities:

	Book Value £'000	Fair value Adjustments £'000	Fair value £'000
Intangible assets	–	153	**153**
Property, plant and equipment	27	–	**27**
Deferred tax liability	–	(47)	**(47)**
Net assets	**27**	**106**	**133**
Goodwill arising on acquisition			**1,810**
Discharged by:			
Cash			**1,943**

The goodwill of £1,810,000 comprises the value of expected synergies arising from the acquisition.

The summarised income statement for the year ended 31 December 2006 is as follows:

	Chancellors Associates £'000
Revenue	**3,344**
Operating profit	**191**
Amortisation	**(45)**
Finance income	–
Finance costs	–
Profit before tax	**146**
Taxation	**(44)**
Profit for the year ended 31 December 2006	**102**

The revenue from the date of the acquisition of the surveying business on 1 July to 31 December 2006 totalled £3,344,474 and the profit for that period after tax totalled £102,162.

The acquisition of the 8.33% shareholding in Lending Solutions Holdings Limited had the following effect on the Group's assets and liabilities:

	Fair value £'000
Goodwill arising on acquisition of minority interest	**36,806**
Discharged by:	
Cash	**34,700**
Issue of shares at a premium	**2,106**
	36,806

25. Acquisitions during the year (continued)

The acquisition of the 10.19% shareholding in Reeds Rains Limited had the following effect on the Group's assets and liabilities:

	Fair value £'000
Minority interest	**1,197**
Goodwill arising on acquisition	**3,787**
	4,984
Discharged by:	
Issue of shares at premium	**3,127**
Costs associated with the acquisitions	**22**
Cash	**1,835**
	4,984

Year ended 31 December 2005

The Group acquired the operations of Homefast Property Lawyers Limited, Reeds Rains Limited, Homeinspectors.co.uk Limited, First Complete Limited, Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited during the previous financial year. The profit for the previous year includes the results of Homefast Property Lawyers Limited for eleven months from 1 February to 31 December 2005, Reeds Rains Limited for three months from 1 October to 31 December 2005, Homeinspectors.co.uk Limited for five months from 1 August to 31 December 2005, First Complete Limited for nine months from 6 April to 31 December 2005, Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited for two months from 1 November to 31 December 2005.

The legal agreement in respect of the acquisition of Reeds Rains Limited was signed on 10 October 2005, but refers to 30 September 2005 as the effective date of transfer. The legal agreement in respect of the acquisition of Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited was signed on 3 November 2005, but refers to 31 October 2005 as the effective date of transfer.

On 1 February 2005 Lending Solutions Holding Limited acquired 77.50% of the share capital of Homefast Property Lawyers Limited, a conveyancing business for £500,000 in cash through a group company. In the year to 31 December 2005, the company contributed a loss of £176,627 to consolidated profit before tax. Homefast Property Lawyers Limited did not trade prior to 1 February 2005. There are no fair value adjustments arising on this acquisition as the directors are of the opinion that the fair values are not significantly different from their carrying/book values.

On 6 April 2005 the Group acquired the entire share capital of First Complete Limited for £1 in cash. In the year to 31 December 2005, the company contributed a loss of £2,503 to consolidated profit before tax. First Complete Limited did not trade prior to 6 April 2005.

On 1 August 2005 the Group acquired 69.67% of the share capital of Homeinspectors Limited for £76,000 in cash. The company provides training courses to individuals wishing to train as Homeinspectors in anticipation of the introduction of HIPS to the estate agency market in 2007. In the year to 31 December 2005, the company contributed a loss of £172,289 to consolidated profit before tax. Homeinspectors Limited did not trade prior to 1 August 2005.

On 1 October 2005 the Group acquired 82.34% of the share capital of Reeds Rains Limited for £24.2m. The company operates an estate agency network including a surveying business. In the year to 31 December 2005, the company contributed £1,917,739 to consolidated profit before tax. In the nine months prior to the acquisition, the company made a profit of £2,635,056 before tax.

On 1 November 2005 the Group acquired 59.59% of the share capital of Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited for £157,172 in cash. The company operates a financial services network. In the year to 31 December 2005, the company contributed a loss of £116,255 to consolidated profit before tax. In the ten months prior to the acquisition, the company made a profit of £4,764 before tax.

25. Acquisitions during the year (continued)

The combined effect of all acquisitions during the previous year on the Group's assets and liabilities is given below:

	Book value £'000	Fair value adjustments* £'000	Fair value £'000
Property, plant and equipment	3,523	3,431	6,954
Other intangible assets	–	7,291	7,291
Trade and other receivables	5,872	(1,810)	4,062
Cash and cash equivalents	3,013	–	3,013
Trade and other payables	(4,403)	(158)	(4,561)
Provision for liabilities and charges	–	(339)	(339)
Current tax liabilities	(658)	343	(315)
Deferred tax liability	–	(2,146)	(2,146)
Net assets	7,347	6,612	13,959
Minority interest			(883)
Goodwill arising on acquisition			11,740
			24,816
Discharged by:			
Cash			
Loan notes issued			18,240
			5,189
Costs associated with the acquisitions			1,387
			24,816

*The adjustments relate to the fair value exercise done at acquisition resulting in changes as follows:

	£'000
Adjustments due to revaluations	2,900
Adjustments to align accounting policies	(1,433)
Separately identifiable intangible assets	7,291
Deferred tax liability	(2,146)
	6,612

25. Acquisitions during the year (continued)

The acquisition of Reeds Rains had the following effect on the Group's assets and liabilities:

	Book value £'000	Fair value adjustments* £'000	Fair value £'000
Property, plant and equipment	3,226	3,431	6,657
Other intangible assets	–	7,291	7,291
Trade and other receivables	5,513	(1,810)	3,703
Cash and cash equivalents	3,117	–	3,117
Trade and other payables	(4,224)	(158)	(4,382)
Other creditors and accruals	–	(339)	(339)
Current tax liabilities	(658)	343	(315)
Deferred tax liability	–	(2,146)	(2,146)
Net assets	6,974	6,612	13,586
Minority interest			(883)
Goodwill arising on acquisition			11,456
			24,159
Discharged by:			
Cash			17,583
Loan notes issued			5,189
Costs associated with the acquisitions			1,387
			24,159

The goodwill of £11,456,000 comprises the value of assembled workforce of £1,912,000 which does not satisfy the criteria for separate recognition under IFRS 3 and the value of expected synergies arising from the acquisition.

*The adjustments relate to the fair value exercise done at acquisition resulting in changes as follows:

	£'000
Adjustments due to revaluation	2,900
Adjustments to align accounting policies	(1,433)
Separately identifiable intangible assets	7,291
Deferred tax liability	(2,146)
	6,612

The summarised income statement for the year ended 31 December 2005 is as follows:

	Reeds Rains Limited £'000
Revenue	32,933
Operating profit	4,250
Exceptional items	518
Finance income	328
Finance costs	–
Profit before tax	5,096
Current tax liabilities	(1,213)
Profit for the year ended 31 December 2005	3,883

The revenue from the date of acquisition on 1 October to 31 December 2005 totalled £9,090,000 and the profit for that period after tax totalled £2,075,561.

25. Acquisitions during the year (continued)

The acquisitions of Linear Mortgage Network Holdings Limited and Linear Mortgage Network Limited had the following effect on the Group's assets and liabilities:

	Book and fair value £'000
Trade and other receivables	7
Cash and cash equivalents	24
Trade and other payables	(28)
Net assets	3
Goodwill arising on acquisition	154
	157
Discharged by:	
Cash	157

The goodwill of £154,000 comprises the value of expected synergies arising from the acquisition.

The summarised income statement for the year ended 31 December 2005 is as follows:

	Linear Mortgage Network group £'000
Revenue	48
Operating loss	(116)
Finance costs	(1)
Loss before tax	(117)
Current tax liabilities	–
Loss for the year ended 31 December 2005	(117)

The revenue from the date of acquisition on 1 November to 31 December 2005 totalled £nil and the loss for that period after tax totalled £116,255.

The acquisition of Homefast Property Lawyers Limited had the following effect on the Group's assets and liabilities:

	Book and fair value £'000
Property, plant and equipment	297
Trade and other receivables	352
Cash and cash equivalents	(128)
Trade and other payables	(151)
Net assets	370
Goodwill arising on acquisition	130
Cash	500

The goodwill of £130,000 comprises the value of expected synergies arising from the acquisition.

26. Client monies

As at 31 December 2006, client monies held by subsidiaries in approved bank accounts amounted to £11,194,793 (2005: £9,030,089). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet.

27. Financial instruments – risk management

The Group is exposed through its operations to one or more of the following financial risks:

- Cash flow interest rate risk
- Liquidity risk
- Credit risk

Policy for managing these risks is set up by the Board following recommendations from the Group Finance Director. Certain risks are managed centrally, while others are managed locally following communications from the centre.

The policy for each of the above risks is described in more detail below:

Cash flow interest rate risk

It is currently Group policy that the majority of external Group borrowings are variable and fixed for periods no greater than one month. This policy is managed centrally. Operations are not permitted to borrow from external sources. Where the Group wishes to fix the amount of external variable rate debt, it considers the use of cap products available to achieve the desired interest rate profile. The Group purchased an interest rate cap in September 2004 to protect itself against fluctuating interest rates on £25.9m of the Group's borrowings initially (reducing in line with the loan repayments). The borrowings tied to this cap were repaid in July 2006. This cap restricts the LIBOR to 6% until 30 September 2006 and 6.5% until 30 September 2007. The cap expires on 30 September 2007.

The Group purchased a further interest rate cap in August 2006 to protect itself against fluctuating interest rates on £30m of the Group's borrowings initially (reducing in line with the facility). This cap restricts the LIBOR to 6% on £30m of the facility until expiry on 24 August 2009. As at the date of these financial statements, the cap has not been used as the prevailing LIBOR has been below the above rate. Although the Group accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Group treasury function. The Group's cash requirement is monitored closely.

All surplus cash is held centrally to offset against the Group's borrowings and reduce the interest payable. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group has a revolving credit facility with a major banking corporation to manage longer term borrowing requirements.

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a credit risk in respect of revenue transactions (i.e. turnover from customers). It is Group policy, implemented locally, to obtain appropriate details of new customers before entering into contracts. The majority of customers use the Group's services as part of a house sale transaction and consequently the debt is paid from the proceeds realised from the sale of the house by the vendor's solicitor before the balance of funds is transferred to the vendor. This minimises the risk of the debt not being collected. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Treasury policy is described in note above. The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

27. Financial instruments – risk management (continued)

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 December 2006 is as follows:

Fixed rate	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
'B' Loan notes	(472)	–	–	–	–	–	(472)
Unsecured loans	(33)	(168)	(33)	(17)	–	–	(251)
Interest rate cap	45	22	12	–	–	–	79

Floating rate	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	578	–	–	–	–	–	578
Revolving credit facility	(4,874)	(28,540)	–	–	–	–	(33,414)
Unsecured loans	(23)	(579)	–	–	–	–	(602)

Repayment terms – 31 December 2006

- Revolving credit facility is repayable when funds permit
- Unsecured loan outstanding to Barclays Bank plc is repayable in 60 equal annual instalments commencing 30 June 2005
- Unsecured loan outstanding to a director of a group company is repayable when funds permit
- Unsecured loan outstanding to a customer of a group company is repayable when funds permit

The interest rate profile of the financial assets and liabilities of the Group as at 31 December 2005 is as follows:

Fixed rate	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Secured loan notes	–	–	–	–	(4,673)	(5,535)	(10,208)
'B' ordinary shares (with cumulative dividend)	–	–	–	–	–	(100)	(100)
'B' Loan notes	(2,578)	(2,589)	–	–	–	–	(5,167)
Interest rate cap	22	22	20	–	–	–	64

Floating rate	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	42,767	–	–	–	–	–	42,767
Bank overdrafts	(26,245)	–	–	–	–	–	(26,245)
Senior term loan	(9,645)	(6,417)	(6,493)	(3,279)	–	–	(25,834)

The effective interest rate and the actual interest rate charged on the loans is as follows:

	Effective rate	Actual rate
Senior term loan	7.68%	7.2%
Secured loan notes	11.50%	10.0%
'B' loan notes	4.04%	3.6%
Revolving credit facility	5.71%	5.71%
Unsecured loans	7.03%	7.03%

27. Financial instruments – risk management (continued)

Repayment terms – 31 December 2005

- Secured loan notes are repayable in 3 equal annual instalments commencing 30 June 2011
- Senior term loan is repayable in 10 equal half yearly instalments commencing 31 December 2004

In 2004, the lenders granted the Group the right to exercise a call option to require them to subscribe for an additional £5m in loan notes due for repayment between 2011 and 2013. This call option was cancelled on 9 January 2006.

The senior term loan and the secured loan notes were repaid in July 2006 incurring a penalty for early settlement of £936,000 on the secured loan notes.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the financial statements:

	2006		2005	
	Book Value £000	**Fair value £000**	Book Value £000	Fair value £000
Financial assets				
Cash and cash equivalents	**578**	**578**	42,767	42,767
Financial liabilities				
Bank overdrafts	**–**	**–**	(26,245)	(26,245)
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(34,016)**	**(34,016)**	(25,834)	(25,834)
Fixed rate borrowings	**(723)**	**(723)**	(15,375)	(15,375)
"B" Ordinary shares (with cumulative dividend)	**–**	**–**	(100)	(100)
Interest rate cap	**79**	**79**	64	64

The fair values for the majority of the financial instruments have been calculated by discounting the expected future cash flows at interest rates prevailing for a comparable maturity period for each instrument. The fair values of the interest rate caps are determined by reference to market values for similar instruments.

28. Related party transactions

Compensation of key management personnel, all of whom are directors of the Company is given in note 11. The details of transactions between Group companies have not been disclosed as these are eliminated on consolidation.

The bank loans disclosed in note 19 are held with Barclays Bank plc. Barclays Private Equity, a subsidiary of Barclays Bank plc, manages funds which are shareholders in the Company. The loans are on normal commercial terms.

Consultancy fees and reimbursement of expenses to non-executive directors (net of VAT) during 2006 was £31,000 (2005: £43,000) No amount was outstanding by the Group as at 31 December 2006.

There were no other related party transactions with directors in the year ended 31 December 2006.

29. Reconciliation of net assets and profit under UK GAAP to IFRS

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for December 2004 year ends retrospectively. The Group has taken the following exemptions:

IFRS 3 *Business Combinations* has been applied to acquisitions of subsidiaries that occurred on or after 1 July 2004.

Certain items of property, plant and equipment were carried in the balance sheet on the basis of valuations performed in 2002. As allowed under IFRS 1, the Group has elected to regard those fair values as deemed cost as at the date of the revaluation.

LSL Property Services plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2005. The analysis below shows a reconciliation of net assets and profit reported under UK GAAP to the revised net assets and profit under IFRS as reported in these financial statements:

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of profit for the year ended 31 December 2005 under UK GAAP to IFRS

	UK GAAP	Reversal of goodwill amortisation	Amortisation of intangible assets	Reversal of amortisation on loan fees	Interest restated at effective interest rate	IFRS
		b	c	e	e	
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	134,871	–	–	–	–	**134,871**
Operating expenses						
Employee costs	(74,338)	–	–	–	–	**74,338**
Establishment costs	(9,596)	–	–	–	–	**9,596**
Depreciation on property, plant and equipment	(2,947)	–	–	–	–	**2,947**
Other	(31,071)	6	–	–	–	**31,065**
	(117,952)	6	–	–	–	**(117,946)**
Other operating income	1,783	–	–	–	–	**1,783**
Group operating profit before amortisation	**18,702**	**6**	**–**	**–**	**–**	**18,708**
Amortisation	(1,795)	1,566	(4,688)	229	–	**(4,688)**
Group operating profit	**16,907**	**1,572**	**(4,688)**	**229**	**–**	**14,020**
Finance income	1,248	–	–	–	–	**1,248**
Finance costs	(3,702)	–	–	–	(334)	**(4,036)**
Net financial costs	**(2,454)**	**–**	**–**	**–**	**(334)**	**(2,788)**
Profit before taxation	**14,453**	**1,572**	**(4,688)**	**229**	**(334)**	**11,232**
Taxation	(4,656)	–	1,406	(69)	101	**(3,218)**
Profit for the year	**9,797**	**1,572**	**(3,282)**	**160**	**(233)**	**8,014**
Minority interests	1	–	3	–	–	**4**
Profit for the year	**9,798**	**1,572**	**(3,279)**	**160**	**(233)**	**8,018**

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of the transition of the balance sheet as at 31 December 2005 to IFRS

	UK GAAP	Reclassification	Reversal of goodwill amortisation	Reclassification of goodwill to other intangible assets	Amortisation of intangible assets	IFRS
		a	b	c	c	
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Non-current assets						
Goodwill	41,843	–	2,256	(21,766)	–	**22,333**
Other intangible assets	–	–	–	31,114	(8,308)	**22,806**
Property, plant and equipment	5,081	–	–	–	–	**5,081**
Financial assets	493	–	–	–	–	**493**
Other debtors	120	–	–	–	–	**120**
Deferred tax asset	–	496	–	(496)	–	**–**
Total non-current assets	**47,537**	**496**	**2,256**	**8,852**	**(8,308)**	**50,833**
Current assets						
Trade and other receivables	24,268	(496)	–	–	–	**23,772**
Cash and cash equivalents	16,522	26,245	–	–	–	42,767
Total current assets	**40,790**	**25,749**	**–**	**–**	**–**	**66,539**
Total assets	**88,327**	**26,245**	**2,256**	**8,852**	**(8,308)**	**117,372**

Reconciliation of the transition of the balance sheet as at 31 December 2005 to IFRS

	UK GAAP	Reclassif-ication	Reversal of goodwill amortisation	Reclassification of goodwill to other intangible assets	Amortisation of intangible assets	Employee benefits	Reversal of amortisation on loan fees	Interest restated at effective interest rate	IFRS
		a	b	c	c	d	e	e	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EQUITY AND LIABILITIES									
Capital and reserves									
Share capital	200	(100)	–	–	–	–	–	–	100
Share premium account	400	–	–	–	–	–	–	–	400
Retained earnings	11,150	–	2,256	–	(5,813)	(86)	239	(390)	7,356
	11,750	(100)	2,256	–	(5,813)	(86)	239	(390)	7,856
Minority interests	882	–	–	–	(3)	–	–	–	879
	12,632	**(100)**	**2,256**	**–**	**(5,816)**	**(86)**	**239**	**(390)**	**8,735**
Non-current liabilities									
Financial liabilities	28,667	100	–	–	–	–	(178)	497	29,086
Deferred tax liability	–	–	–	8,852	(2,492)	(39)	105	(168)	6,258
Provision for liabilities and charges	2,907	(59)	–	–	–	–	–	–	2,848
Total non-current liabilities	**31,574**	**41**	**–**	**8,852**	**(2,492)**	**(39)**	**(73)**	**329**	**38,192**
Current liabilities									
Financial liabilities	12,328	26,245	–	–	–	–	(166)	61	38,468
Trade and other payables	29,142	–	–	–	–	125	–	–	29,267
Current tax liabilities	2,651	–	–	–	–	–	–	–	2,651
Provision for liabilities and charges	–	59	–	–	–	–	–	–	59
	44,121	**26,304**	**–**	**–**	**–**	**125**	**(166)**	**61**	**70,445**
Total equity and liabilities	**88,327**	**26,245**	**2,256**	**8,852**	**(8,308)**	**–**	**–**	**–**	**117,372**

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of the transition of the balance sheet as at 31 December 2004 to IFRS

	UK GAAP	Reclassification	Reversal of goodwill amortisation	Reclassification of goodwill to other intangible assets	Amortisation of intangible assets	Fair value adjustment to freehold property	IFRS
		a	b	c	c	f	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Non-current assets							
Goodwill	27,256	–	685	(16,678)	–	(115)	**11,148**
Other intangible assets	–	–	–	23,823	(3,620)	–	**20,203**
Property, plant and equipment	5,414	–	–	–	–	170	**5,584**
Deferred tax asset	–	445	–	(445)	–	–	**–**
Total non-current assets	**32,670**	**445**	**685**	**6,700**	**(3,620)**	**55**	**36,935**
Current assets							
Trade and other receivables	12,383	(445)	–	–	–	–	**11,938**
Cash and cash equivalents	23,103	147,418	–	–	–	–	**170,521**
Total current assets	**35,486**	**146,973**	**–**	**–**	**–**	**–**	**182,459**
Total assets	**68,156**	**147,418**	**685**	**6,700**	**(3,620)**	**55**	**219,394**

Reconciliation of the transition of the balance sheet as at 31 December 2004 to IFRS

	UK GAAP	Reclassification	Reversal of goodwill amortisation	Reclassification of goodwill to other intangible assets	Amortisation of intangible assets	Subtotal
		a	b	c	c	
	£'000	£'000	£'000	£'000	£'000	£'000
EQUITY AND LIABILITIES						
Capital and reserves						
Share capital	200	(100)	–	–	–	100
Share premium account	400	–	–	–	–	400
Retained earnings	1,352	–	685	–	(2,534)	(497)
	1,952	**(100)**	**685**	**–**	**(2,534)**	**3**
Non-current liabilities						
Financial liabilities	36,443	100	–	–	–	36,543
Trade and other payables	302	–	–	–	–	302
Deferred tax liability	–	–	–	6,700	(1,086)	5,614
Provision for liabilities and charges	4,018	(290)	–	–	–	3,728
Total non-current liabilities	**40,763**	**(190)**	**–**	**6,700**	**(1,086)**	**46,187**
Current liabilities						
Financial liabilities	6,434	147,418	–	–	–	153,852
Trade and other payables	18,904	–	–	–	–	18,904
Current tax liabilities	103	–	–	–	–	103
Provision for liabilities and charges	–	290	–	–	–	290
	25,441	**147,708**		**–**		**173,149**
Total equity and liabilities	**68,156**	**147,418**	**685**	**6,700**	**(3,620)**	**219,339**

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of the transition of the balance sheet as at 31 December 2004 to IFRS (continued)

	Subtotal	Employee benefits	Reversal of amortisation on loan fees	Interest restated at effective interest rate	Fair value adjustment to freehold property	IFRS
		d	e	e	f	
	£'000	£'000	£'000	£'000	£'000	£'000
EQUITY AND LIABILITIES						
Capital and reserves						
Share capital	100	–	–	–	–	**100**
Share premium account	400	–	–	–	–	**400**
Retained earnings	(497)	(87)	79	(157)	–	**(662)**
	3	**(87)**	**79**	**(157)**	**–**	**(162)**
Non-current liabilities						
Interest bearing loans	36,543	–	(115)	209	–	**36,637**
Trade and other payables	302	–	–	–	–	**302**
Deferred tax liability	5,614	(37)	36	(67)	55	**5,601**
Provision for liabilities and charges	3,728	–	–	–	–	**3,728**
Total non-current liabilities	**46,187**	**(37)**	**(79)**	**142**	**55**	**46,268**
Current liabilities						
Financial liabilities	153,852	–	–	15	–	**153,867**
Trade and other payables	18,904	124	–	–	–	**19,028**
Current tax liabilities	103	–	–	–	–	**103**
Provision for liabilities and charges	290	–	–	–	–	**290**
	173,149	**124**	**–**	**15**	**–**	**173,288**
Total equity and liabilities	**219,339**	**–**	**–**	**–**	**55**	**219,394**

Explanation of the reconciling items between UK GAAP to IFRS

a. *Reclassification*

Deferred tax asset

Under UK GAAP deferred taxation assets were classified in debtors due within one year. IAS 12 requires that deferred taxation amounts be classified as non current assets. Consequently deferred tax asset of £496,000 (2004: £445,000) has been reclassified from trade and other receivables.

Bank overdraft

Under UK GAAP cash and cash equivalents were shown net of outstanding bank overdraft. However, under IFRS bank overdraft of £26,245,000 (2004: £147,418,000) has been classified separately under financial liabilities and cash and cash equivalents have been disclosed gross.

Reclassification of 'B' shares

On transition to IFRS the group has reclassified the 1,000,000 'B' ordinary shares issued to BPE at their nominal value (£0.10 each) as financial liabilities as these shares have a right to cumulative dividend and the present value of the expected dividend payout exceeds the proceeds received on issue of shares. This has had the effect of transferring £100,000 from issued share capital to non-current financial liabilities. There was no impact on profit in the year.

Provisions

Under UK GAAP onerous lease provision expected to be utilised within one year was not classified separately as current liability. Under IFRS, onerous lease provision of £59,000 (2004: £290,000) expected to be utilised with in one year has been reclassified and disclosed under current liabilities.

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Explanation of the reconciling items between UK GAAP to IFRS (continued)

b. Reversal of goodwill amortisation

Under UK GAAP goodwill is required to be amortised over its expected useful life, and that life should not be greater than 20 years. However, under IAS36: Intangible assets, amortisation of goodwill is not permitted, instead goodwill should be reviewed annually for any impairment.

Under UK GAAP, amortisation of £1,572,000 was charged in respect of subsidiaries in the year to 31 December 2005 (2004: £685,000). Upon transition to IFRS, these charges have been reversed and carrying value of goodwill on 1 July 2004 has been adopted as the carrying amount of goodwill in the opening IFRS balance sheet.

c. Reclassification of separately identifiable intangible assets on acquisition and amortisation of intangible assets

A wider range of intangible assets are recognised under IFRS, particularly in respect of business combinations. Under both IFRS and UK GAAP, an intangible asset is an identifiable non-monetary asset without physical substance. Under IAS 38, Intangible assets, an asset is identifiable when it is separable (that is, capable of being sold separately from the entity) or arises from contractual or other legal rights (regardless of whether those rights are separable), whilst under UK GAAP (FRS 10) the assets must be capable of separate disposal without disposing of the related business. Where intangibles are identified in business combinations this has the impact of reducing goodwill (which is not amortised under IFRS) and recognising other types of intangible assets, which are amortised over their estimated useful lives. The following intangible assets acquired as part of business combination of your-move.co.uk and esurv were considered as separable and met the definition of intangible assets under IAS 38.

Order book (pipeline)
When the estate agency business and the surveying business were acquired by the Group, there was a pipeline of estate agency business awaiting legal exchange, a pipeline of registered vendors and a pipeline of surveys awaiting inspection, the value of which transferred to the group. The pipeline is the number of 'sale agreed' properties which will either reach legal exchange at some point in the future or will fall through. These pipelines meet the definition of intangible assets under IAS38. However, unlike most intangible assets, the pipelines unwind over a short period, normally six months for the estate agency pipeline awaiting legal exchange, twelve months for the estate agency register pipeline and one week for the survey pipeline. In arriving at the valuation of the pipelines, an appropriate proportion of operating costs are allocated to the pipeline in order to reflect the infrastructure required to manage the pipelines through to completion. The pipelines at the date your-move.co.uk and esurv were acquired by the group in 2004 were £1,516,000 and £106,000 respectively. The pipeline on acquisition of Reeds Rains in 2005 was £1,813,000.

Software
At the date that the estate agency business and the surveying business were acquired by the Group, there was software developed 'in-house' which was used by each company, the value of which transferred to the Group. Under IAS 38, this software is required to be recognised as an intangible asset. This is considered to have a useful life of three years and the value of such software at the date of acquisition of your-move.co.uk and esurv by the Group in 2004 was £288,000 and £269,000 respectively and at the date of acquisition of Reeds Rains in 2005 was £141,000.

Contract related intangibles
There were also various contracts held by each company with external parties which generate income for the companies (customer contracts, general insurance renewals contracts, lettings contracts and franchise agreements), the value of which transferred to the Group. The lettings contracts are cancellable on notice and generally a landlord is considered to use the company's services for an average of fifteen months. The value of these contracts at the date your-move.co.uk was acquired by the group was £996,000 and the value of these contracts at the date Reeds Rains was acquired in 2005 was £454,000. Customer contracts in the survey business are legal contracts and generally cover a period of five years. The value of these contracts at the date esurv was acquired by the group was £13,286,000. Lettings contract, customer contracts, general insurance renewals contracts and franchise agreements in the estate agency business are mainly legal contracts and generally cover a period of ten years. The value of these contracts at the date your-move.co.uk was acquired by the Group in 2004 was £3,571,000 and the value of these contracts at the date Reeds Rains was acquired by the Group in 2005 was £3,642,000.

Brand
The Group has recognised £3,791,000 in respect of the brand values of your-move.co.uk and esurv. The brand value of Reeds Rains acquired in 2005 is £1,241,000.

Amortisation
The intangible assets identified separately have been amortised over their estimated useful life. The total amortisation in 2005 was £4,688,000 (2004 – £3,620,000).

d. Employee benefits

The employees of the estate agency business and the surveying business are entitled to annual leave which accrues evenly over the year. Under UK GAAP, no accrual is made for the unused annual leave entitlement of employees as at 31 December 2004. However, under IAS19: Employee benefits, an accrual should be made and therefore an accrual of £125,000 (2004: £124,000) has been made by the Group on transition to IFRS.

29. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Explanation of the reconciling items between UK GAAP to IFRS (continued)

e. Reversal of amortisation on loan arrangement fees and interest restated at the effective interest rate

Under UK GAAP loan arrangement fees paid are required to be amortised over the life of the financial loan borrowings. However under IFRS the loans and borrowings are required to be measured at amortised cost using the effective interest rate. Upon transition to IFRS, the amortisation of loan arrangement fees of £229,000 (2004: £115,000) have been reversed and replaced by the finance costs calculated using the effective interest rate resulting in increase in finance cost of £334,000 (2004: £209,000).

f. Fair value adjustment to freehold property

In early 2005, the estate agency business sold the remaining freehold property for £0.8m which exceeded the carrying value of the freehold property stated in the Group's balance sheet under UK GAAP as at 31 December 2004. In the 2005 UK GAAP financial statements this was considered as adjustment to prior year fair values of assets acquired with consequent impact on goodwill. On transition to IFRS, the Group has considered this as a fair value adjustment to freehold property acquired in 2004. This has had the effect of transferring £170,000 from goodwill to property, plant and equipment. There was no impact on profit.

g. Cash flow statement

The transition from UK GAAP to IFRS has no effect upon the reported cashflows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cashflows split into three categories of activities – operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cashflows generated.

The only changes to the cash flow statement are presentational. The key ones include:

- Presenting a statement showing movements in cash and cash equivalents, rather than just cash.
- Classifying tax cash flows as relating to operating activities.

30. Capital commitments

	2006 £'000	2005 £'000
Capital expenditure contracted for but not provided	**32**	124

31. Post balance sheet event

In December 2006, the Group announced the details of a SAYE share scheme available to all group employees, commencing in January 2007. The exercise price was set at £1.74 and the scheme expires in three years.

On 7 February 2007, the Group acquired a majority interest in a small estate agency business. The business was valued at circa £3m, which reflects its underlying profitability and its strong management and brand. The group is in the process of ascertaining the fair value of the net assets acquired.

32. Principal subsidiary companies

The Group owns directly or indirectly the following issued and fully paid ordinary and preference share capital of its subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted mainly in the United Kingdom:

Lending Solutions Holdings Limited*	Ordinary shares	100%	Holding company
your-move.co.uk limited	Ordinary shares	100%	Estate agency and related activities
esurv limited*#	Ordinary shares	100%	Surveying and valuation services
Lending Solutions Limited	Ordinary shares	100%	Non-trading company
Homefast Property Lawyers Limited	Ordinary shares	77.5%	Legal conveyancing services
Homeinspectors.co.ukLimited	Ordinary shares	76%	Training services
First Complete Limited	Ordinary shares	100%	Financial services
Reeds Rains Limited*#	Ordinary shares and non–cumulative redeemable preference shares	100%	Estate agency and related activities
Linear Mortgage Network Holdings Limited	Ordinary shares	65%	Holding company
Linear Mortgage Network Limited	Ordinary shares	65%	Mortgage services
Linear Financial Services Holdings Limited@	Ordinary shares	56%	Mortgage services
Linear Financial Services Limited@	Ordinary shares	56%	Mortgage services
Chancellors Associates Limited@	Ordinary shares	100%	Surveying and valuation services

* held directly by the Company
\# in 2005 these were held indirectly by the Company
@ acquired during 2006

On 5 July 2006, Lending Solutions Holdings Limited sold esurv Limited and Reeds Rains Limited to LSL Property Services plc for £62.8m (equivalent to the book value of those companies).

Statement of directors' responsibilities in relation to the parent company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of LSL and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of LSL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LSL PROPERTY SERVICES PLC

We have audited the parent company financial statements of LSL Property Services plc for the year ended 31 December 2006 which comprise the company balance sheet and the related notes 1 to 19. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of LSL Property Services plc for the year ended 31 December 2006.

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 auditors' 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, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited 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 Parent Company Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review 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 Director's Report, the unaudited part of the director's remuneration report, the Chairman's Statement, Business Review, the Corporate Governance Report and the Corporate Social Responsibility Statement. 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
Leeds

7 March 2007

Parent company balance sheet as at 31 December 2006

	Note	2006 £'000	Restated 2005 £'000
Fixed assets			
Investments	6	**105,847**	1,068
Current assets			
Debtors	7	**6,514**	58,377
Creditors: amounts falling due within one year	8	**23,573**	31,806
Net current (liabilities)/assets		**(17,059)**	26,571
Total assets less current liabilities		**88,788**	27,639
Creditors: amounts falling due after one year	9	**74,778**	29,086
Net assets/(liabilities)		**14,010**	(1,447)
Capital and reserves			
Called up share capital	13	**208**	100
Share premium account	14	**5,629**	400
Reserve for own shares	14	**(298)**	–
Share-based payment reserve	14	**13**	–
Profit and loss account	14	**8,458**	(1,947)
Equity shareholders' funds		**14,010**	(1,447)

The Company has elected to take exemption under Section 230 of the Companies Act 1985 to not present the parent company profit and loss account.

The profit for the parent company for the year was £10,404,737 (2005: £137,448).

The financial statements were approved by the Board on 7 March 2007 and were signed on its behalf by:

D A Fielding *Director* **S D Embley** *Director*

The accompanying notes are an integral part of these financial statements.

1. Accounting policies

Basis of preparation of financial statements

The financial statements of the Company have been prepared under the historical cost convention, and in accordance with applicable Accounting standards in the United Kingdom and with those parts of the Companies Act 1985 applicable to companies reporting under UK GAAP.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2006. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

On 12 October 2006, the Company changed its name from Lending Solutions Limited to LSL Property Services plc and obtained listing of its shares on the London Stock Exchange on 21 November 2006.

New accounting standards

The Company has adopted the following accounting standards in the year:

- FRS 20 'Share-based payments'. Under FRS 20 the Company is required to reflect share-based payments in the profit and loss account. The Company operates a long term incentive plan under which options have been granted to employees of the Company and employees of other companies in the Group. Details of the valuation method adopted for shares granted under the plan are set out in note 11 to the consolidated financial statements. At each subsequent balance sheet date the Company revises its estimate of the number of employees who will receive awards. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The adoption of FRS20 increased net assets by £11,000.
- FRS 26 'Financial Instruments: Measurement'. FRS 26 is applicable to the Company as it is now listed on the London Stock Exchange. FRS 26 has been adopted from 1 January 2005 and the prior year comparatives have been restated. FRS 26 sets out the requirements for measurement, recognition and de-recognition of financial instruments. The adoption of FRS 26 increased the net liabilities of the Company by £109,000 at 1 January 2005 and £214,000 at 31 December 2005 and resulted in increase in profit after tax for the year ended 31 December 2006 by £214,000 (2005: Reduction in profit after tax by £105,000).
- FRS 28 'Corresponding amounts'. FRS 28 sets out the requirements for the disclosure of corresponding amounts for items shown in the entity's primary financial statements and the notes to the financial statements. The adoption of FRS 28 had no effect upon the Company's profit or net assets.

Taxation

Current tax
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 are enacted or substantially enacted by the balance sheet date.

Deferred tax
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 for in 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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 are enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions costs

The Company operates a defined contribution pension scheme for employees of the Company. The assets of the scheme are invested and managed independently of the finances of the Company.

1. Accounting policies (continued)

Share-based payment transactions

The share option programme allows group employees to acquire shares of the Company. The fair value of the options granted is recognised as an employee expense with the corresponding increase in equity in the case of equity settled schemes. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is recognised irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Investment in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Treasury shares

The Company has an employee share trust (ESOT) for the granting of group shares to executives and senior employees. Shares in the Company held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on shares held in the trust have been waived.

Financial instruments

The Company has reclassified certain equity shares as debt in accordance with the requirements of FRS 25 'Financial Instruments: Disclosure and Presentation' which is effective for accounting periods beginning on or after 1 January 2005. Refer to note 9 and note 11 for details of the reclassification.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

The Company's accounting policy for each category of financial instruments is as follows:

Cash and short term deposits

Short-term deposits are deposits with original maturity within three months. For the purposes of the consolidated cash flow statement, cash and short term deposits consist of cash and short term deposits net of outstanding bank overdrafts held with the same bank where there is a legal right and intention to offset.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Finance costs comprise interest payable on borrowings calculated at the effective interest rate method and recognised on an accruals basis, together with dividends paid.

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate caps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The directors have taken advantage of FRS25 and have excluded disclosures relating to financial instruments from the financial statements on the basis that the financial instruments of the Company are included within the consolidated financial statements of the Group.

1. Accounting policies (continued)

Classification of shares as debt or equity

When shares are issued, any component that creates a financial liability of the Company is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2. Company profit for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit after tax for the year was £10,404,737 (2005: £137,448).

3. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2006 £'000	2005 £'000
Audit of the financial statements	**42**	15
Other fees to auditors – other services supplied pursuant to legislation	**462**	–
– corporate finance services	**–**	119
– other services	**95**	–
	599	134

4. Directors and employees

Remuneration of directors

	2006 £'000	2005 £'000
Directors' emoluments	**528**	–
Contributions to money purchase pension schemes	**18**	–
	546	–

Consultancy fees and expenses of £21,773 (2005: £nil) were also paid by the Company during the year.

The number of directors who were members of Company money purchase pension schemes during the year totalled 2 (2005: nil).

The remuneration of the highest paid director amounted to £268,396 (2005: £nil) excluding pension costs. Company contributions to money purchase pension schemes for that director amounted to £10,533 (2005: £nil) in the year.

Directors' contributions to pension schemes are matched by the Company up to a maximum of 10% of pensionable earnings.

Employee numbers and costs

The Company employs staff in its head offices. Aggregate payroll costs of these employees were:

	2006 £'000	2005 £'000
Wages and salaries	**605**	–
Social security costs	**38**	–
Pension costs	**25**	–
Share-based payment expense (see below)	**2**	–
	670	–

The monthly staff numbers (including directors) during the year averaged 6 (2005: nil).

All staff are employed in the provision of head office activities.

Share-based payments

Details of share-based payments schemes operated by the Company are disclosed in note 11 of the Group accounts. The charge for share-based payments was £2,248 (2005: £nil).

5. Dividends

	2006 £'000	2005 £'000
Dividend received	**14,904**	–

6. Investments in group undertakings

The Company owns directly or indirectly the majority of the issued and fully paid ordinary and redeemable preference share capital of its subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted in the United Kingdom.

Principal subsidiary undertakings of the group

your-move.co.uk Limited – indirectly held
esurv Limited – directly held
Reeds Rains – directly held

Details of the subsidiaries held indirectly by the Company are shown in note 32 to the Group financial statements.

Investment in group undertakings

	2006 £'000	2005 £'000
At 1 January	**1,068**	1
Additions	**104,779**	1,067
At 31 December	**105,847**	1,068

On 25 July 2006, the Company paid £39,752,296 in respect of the acquisition of esurv Limited from Lending Solutions Holdings Limited. The Company also paid £23,092,713 in respect of the acquisition of Reeds Rains Limited from Lending Solutions Holdings Limited on that date.

On 25 July 2006, the Company issued 10,000 ordinary shares of £0.10 per share at a premium of £210.51 per share, in addition to a cash consideration of £34,700,000 in exchange for the acquisition of the remaining minority interest of 8.33% in Lending Solutions Holdings Limited. The Company also paid £300,000 in cash and issued 32,158 ordinary shares of £0.10 per share at a premium of £95.15 per share for an additional 6.48% shareholding in Reeds Rains Limited.

On 29 September 2006, the Company acquired the remaining minority interest in a subsidiary, Reeds Rains Limited for a consideration of £1.5m.

The investment in Lending Solutions Holdings Limited, Reeds Rains Limited and esurv Limited have been included in the company's balance sheet at their cost of acquisition.

7. Debtors

	2006 £'000	2005 £'000
Deferred tax asset (note 10)	**48**	–
Corporation tax debtor	**1,582**	303
Other debtors	**158**	–
Prepayments and accrued income	**83**	69
Amounts owed by Group undertakings	**4,643**	58,005
	6,514	58,377

8. Creditors: amounts falling due within one year

	2006 £'000	Restated 2005 £'000
Bank overdraft	–	11,043
Loans (note 11)	**5,346**	12,223
Accruals	**716**	1,215
Amounts owed to group undertakings	**17,511**	7,325
	23,573	31,806

9. Creditors: amounts falling due after one year

	2006 £'000	Restated 2005 £'000
Loans (note 11)	**74,778**	28,986
1,000,000 'B' Ordinary shares	–	100
	74,778	29,086

Details of loans not wholly repayable within five years are as follows:

	2006 £'000	Restated 2005 £'000
10% fixed rate subordinated secured loan notes repayable in 3 equal annual instalments commencing 30 June 2011	–	10,208

Bank loans and loan notes in issue in 2005 were repaid in full in July 2006.

'B' ordinary shares

The 'B' ordinary shares have been classified as loan debt in accordance with the requirements of FRS 25 'Financial Instruments: Disclosure and Presentation' which is effective for accounting periods beginning on or after 1 January 2005 as these shares are entitled to a cumulative dividend and present value of the future dividend payments are expected to be higher than the carrying value of the shares.

The 1,000,000 'B' ordinary shares which were issued in 2004 and were reclassified as loan debt in 2005 have been reclassified as share capital as these shares with cumulative dividend were converted into ordinary shares and were not entitled to any further cumulative dividend. The dividend on these 'B ' ordinary shares of £1,319,997 was paid in November 2006 prior to listing.

10. Deferred tax asset

	2006 £'000	2005 £'000
Deferred tax liability at 1 January	–	–
Deferred tax credit in income statement for the year	**48**	–
Deferred tax asset at 31 December	**48**	–

Deferred tax asset is in relation to a short term timing difference.

11. Loans

	2006 £'000	Restated 2005 £'000
Amounts falling due		
In one year or less	**5,346**	11,814
In more than one year but not more than two years	**74,778**	9,195
In more than two years but not more than five years	–	9,900
In more than five years	–	10,400
	80,124	41,309

Details of loans not wholly repayable within five years are as follows:

	2006 £'000	Restated 2005 £'000
10% fixed rate subordinated secured loan notes repayable in 3 equal annual instalments commencing 30 June 2011	–	10,208

In 2004, the lenders granted the Company the right to exercise a call option to require them to subscribe for an additional £5m in loan notes due for repayment between 2011 and 2013. This call option was cancelled on 9 January 2006.

Loans totalling £nil (2005: £36.8m) were secured by a fixed and floating charge on the Group's assets excluding the following group companies, your-move.co.uk, BroomCo (3455) Limited, First Complete Limited, Linear Mortgage Network Holdings Limited & Linear Mortgage Network Limited. The loan of £0.5m (2005: £5.2m) is guaranteed by the Group's bankers, Barclays Bank plc.

The bank loans totalling £80.1m (2005: £25.9m) are secured by a debenture over the Company's assets together with the assets of a number of subsidiaries (excluding Lending Solutions Limited, First Complete Limited, Linear Mortgage Network Holdings Limited, Linear Mortgage Network Limited, Linear Financial Services Holdings Limited, Linear Financial Services Limited, Homeinspectors.co.uk Limited and Chancellors Associates Limited). A loan of £0.5m (2005: £5.2m) is also guaranteed by the Company's bankers, Barclays Bank plc.

Arrangement fees have been amortised in full during the year following the repayment of the related loans.

Bank loans and loan notes in issue in 2005 were repaid in full in July 2006.

12. Obligations under leases

Operating leases

The Company had no annual commitments under non-cancellable operating leases (2005: none)

13. Called up share capital

	2006		Restated 2005	
	Shares	**£'000**	Shares	£'000
Authorised:				
'A' ordinary shares of £0.10 each	–	–	1,083,332	108
'B' ordinary shares of £0.10 each	–	–	1,000,000	100
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	–	–
	500,000,000	**1,000**	2,083,332	208
Issued and fully paid:				
At 1 January	**1,000,000**	**100**	1,000,000	100
'B' ordinary shares converted prior to listing	**1,000,000**	**100**	–	–
Issue of shares	**2,093,208**	**8**	–	–
Share split for 10p per share to 0.2p per share	**100,065,742**	**–**		
At 31 December	**104,158,950**	**208**	1,000,000	100

The 1,000,000 'B' ordinary shares of 10p each which were issued in 2004 and were reclassified as loan debt in 2005 have been reclassified as share capital as these shares with cumulative dividend were converted into ordinary shares and were not entitled to any further cumulative dividend.

On 25 July 2006, the Company issued 5,000 'A' ordinary shares of 10p each and 5,000 'B' ordinary shares of 10p each in exchange for the minority interest (8.33%) in a subsidiary company, Lending Solutions Holdings Limited.

On 25 July 2006, the Company issued 32,158 'A' ordinary shares of 10p each in exchange for a 6.4852% shareholding in a subsidiary company, Reeds Rains Limited.

On 31 October 2006, the 'A' and 'B' ordinary shares of 10p each were subdivided into one class of 0.2p shares.

On 21 November 2006, the Company issued 2,051,050 ordinary shares of 0.2p each in exchange for the return of warrants.

Employee share trust

The Company has an employee share trust (ESOT) for the granting of group shares to executives and senior employees. Shares in the Company held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on shares held in the trust have been waived. The Company acquired 130,512 of its own shares via the trust in November 2006. The total amount paid to acquire the shares was £297,920. The market value of the shares held by ESOT on 22 February 2007 was £313,000.

14. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Share based payment reserve £'000	Reserve for own shares £,000	Profit and loss account £'000	Total £'000
At 1 January 2005	**200**	**400**	–	–	**(1,975)**	**(1,375)**
Reclassification of 'B' ordinary shares	**(100)**	–	–	–	–	**(100)**
Adoption of FRS 26	–	–	–	–	**(109)**	**(109)**
Shareholders' funds at 1 January 2005	**100**	**400**	–	–	**(2,084)**	**(1,584)**
Profit for the year	–	–	–	–	**137**	**137**
At 1 January 2006	**100**	**400**	–	–	**(1,947)**	**(1,447)**
'B' ordinary shares converted listing prior to listing	**100**	–	–	–	–	**100**
Issue of shares	**8**	**5,229**	–	–	–	**5,237**
Share-based payments	–	–	**13**	–	–	**13**
Purchase of shares	–	–	–	**(298)**	–	**(298)**
Profit for the year	–	–	–	–	**10,405**	**10,405**
Balance at 31 December 2006	**208**	**5,629**	**13**	**(298)**	**8,458**	**14,010**

Share premium

The amount subscribed for share capital in excess of nominal value less any costs attributable to the issue of new shares.

Share- based payment reserve

This represents the amount provided in the year in respect of share awards.

15. Pensions costs and commitments

The Company operates defined contribution pension schemes for all its directors and employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

The Company's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2006, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits.

The Company's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Company left the Aviva Group in 2004) throughout 2006, were 10% of pensionable salaries where members contribute and the cost of the death-in-service benefits.

Total contributions to the defined contribution schemes in the year were £24,591 (2005: £nil).

There were no outstanding amounts in respect of pensions as at 31 December 2006 (2005: £nil).

16. Related party transactions

Details of the directors' remuneration are given in note 4.

The Company has taken advantage of the exemption under FRS8 where disclosure is not required of transactions with subsidiary undertakings 90% or more of whose voting rights are controlled within the Group and where the Company's own financial statements are presented together with its consolidated financial statements.

17. Capital commitments

The Company had no capital commitments as at 31 December 2006 (2005: none).

18. Contingent liabilities

The Company is party to a bank overdraft and revolving credit facility totalling £32.8m (2005: loans totalling £25.9m) which are secured by a debenture dated 17 July 2006 over the Company's assets together with the assets of a number of other group companies (your-move.co.uk Limited, esurv Limited, Reeds Rains Limited, Homefast Property Lawyers Limited and Lending Solutions Holdings Limited). A loan of £0.5m (2005: £5.2m) is also guaranteed by the Company's bankers, Barclays Bank plc.

19. Post balance sheet event

In December 2006, the Company announced the details of a SAYE share scheme available to all group employees, commencing in January 2007. The exercise price was set at £1.74 and the scheme expires in three years.