LSL Property Services plc Annual Report and Accounts 2007

LSL Property Services plc

Annual Report and Accounts **2007**

Contents

This report covers the period from 1 January 2007 to 31 December 2007.

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

- **Group**
  - Record Underlying Operating Profit – up 13.0% to £36.5m (2006: £32.3m).
  - Adjusted Proforma Earnings Per Share up 17.0% to 23.3p per share (2006: 19.8p per share) (Basic and Diluted Earnings Per Share 15.8p and 15.7p (2006: 23.1p and 23.1p)).
  - Excellent cashflow generation – net cashflow from operating activities of £29.4m (2006: £30.3m).
  - Final dividend of 3.86p per share, giving a total dividend for the year of 6.86p per share.
- **Business Diversification**
  - Surveying business significantly expanded during the year by the major contract gains from C&G and Barclays.
  - Surveying now represents 72% of Group profits (2006: 65%).
- **Surveying Performance**
  - Turnover increased by 21.4% to £89.8m.
  - Underlying Operating Profit up 25.2% to £26.3m (2006: £21.0m).
  - Integration of the C&G and Barclays contracts has gone smoothly and both are performing in line with expectations.
  - Despite difficult market conditions, with mortgage approvals during the final quarter of 2007 down by 23%, the business has proven to be resilient with e.surv job numbers down by only 10% in the final quarter of 2007.
- **Estate Agency Performance**
  - Despite difficult market conditions experienced during the second half of 2007 Underlying Operating Profit up 2.5% to £13.7m (2006: £13.4m).
  - Cost saving actions already taken in 2007 are expected to generate significant savings in 2008.
- **Financial Services Performance**
  - Growth in financial services with the value of mortgage applications up 10% to £3.31bn (2006: £3.00bn).
  - Continued investment in financial services growth has resulted in an Underlying Operating Loss for the year of £0.9m (2006: £0.8m).

Chairman's Statement

We are pleased to report that 2007 has been a record year for LSL, with Underlying Operating Profit increasing by 13% to £36.5m (2006: £32.3m).

Our surveying business expanded significantly during the year through major contract gains from C&G and Barclays and, as a result, surveying represented 72% (2006: 65%) of the Group's profits. The surveying division's performance has proven to be resilient during the final quarter of 2007 due to its flexible operating model and the contract gains. Underlying Operating Profit for the year increased by 25.2% to £26.3m (2006: £21.0m).

Despite challenging market conditions in the second half of 2007, the estate agency division has performed satisfactorily, increasing its Underlying Operating Profit for the year by 2.5% to £13.7m (2006: £13.4m).

The Group has continued to invest in and expand its financial services division resulting in an increase in the volume of mortgage applications to £3.31bn (2006: £3.00bn). This investment has resulted in a loss for the year of £0.9m (2006: £0.8m).

The business is strongly cash generative, and as a result the board has proposed a final dividend of 3.86p per share giving a total dividend for the year of 6.86p per share (2006: nil).

Financial results

Group revenue has increased by 10.9% to £219.5m (2006: £198.0m) and the Underlying Operating Profit by 13% to £36.5m (2006: £32.3m), reflecting a continued improvement in Underlying Operating Profit margin from 16.3% to 16.7%.

Exceptional costs of £1.4m were incurred across the Group in the second half of 2007. These result from actions taken to reduce our operating cost base in light of the lower activity levels as well as integration costs arising from the Barclays surveying contract. These actions will generate significant savings in 2008. Exceptional costs also include a £0.3m non cash impairment charge in connection with the conveyancing division. These exceptional costs are lower than previously indicated in our pre close trading statement issued on 3 January 2008.

Net finance costs for the year were £2.7m (2006: £4.2m) resulting in a profit before tax (before adjustment to goodwill) and amortisation of £32.4m. The amortisation charge for the year of £9.1m includes £3.0m, which is tax deductible, in respect of the C&G contract which is being amortised on a straight line basis over five years in line with the expected economic benefit.

The profit after tax was £16.4m (2006: £13.4m) for the year, and the Adjusted Proforma Earnings Per Share was 23.3p (2006: 19.8p per share).

The Group is strongly cash generative reporting a net cash inflow from operating activities of £29.4m (2006: £30.3m) and a low level of capital expenditure of £2.4m. The Group benefits from a strong balance sheet with net debt as at 31 December 2007 of £48.7m (2006: £34.2m), after incurring the cash consideration of £30.2m for the C&G contract. LSL has a £95.0m revolving credit facility in place.

The Board is proposing a final dividend of 3.86p per share, which gives a total dividend of 6.86p per share (2006: nil). The dividend policy reflects the cash-generative nature of the Group, and its long-term earnings potential whilst maintaining resources to continue the Group's growth, by investment in the existing businesses as well as in selective acquisitions. The final dividend will be paid on 30 April 2008 to those shareholders on the register on 25 March 2008.

Market

The housing market has been challenging during the second half of 2007, with housing transaction volumes for LSL's two main estate agency brands down by circa one third in the second half. The fall in volume arose following five successive interest rate rises, which have created affordability issues and have impacted on consumer confidence. The introduction of Home Information Packs (HIPs) also created some short term dislocation in supply.

Whilst LSL is dependent on the activity levels in the UK housing market, the operating model demonstrates some resilience to the housing market cycle with LSL's profitability being biased towards surveying. Surveying demonstrates more resilience during a housing market downturn principally due to the flexibility of the Group's surveying panel management model under which an increasing proportion of jobs are performed within e.surv rather than outsourced. Surveying now represents an increased proportion of the Group's Underlying Operating Profit.

Chairman's Statement

Developments

LSL has continued to invest for the future, particularly in both the surveying and the financial services divisions.

The surveying division has made strong progress during the year, by gaining two major contracts with Barclays and C&G. The C&G contract is an exclusive agreement to provide panel management services for five years, for a cash consideration of £30.2m. The contract started on 1 July 2007 and has contributed £11.4m to turnover, with an operating profit and margin of £5.4m and 48% respectively. This contract will significantly enhance earnings and profits and in 2008 will reflect a full year contribution.

On 9 July 2007, we announced a contract with Barclays to provide exclusive panel management services for an initial term of three years. This contract started on 1 August 2007 and has been successfully integrated into the existing e.surv business. Since the well publicised issues in the lending market, some existing client volumes have declined significantly, reinforcing the importance of the above contract gains to the division.

The estate agency business has continued to develop its customer offer. In the current difficult market conditions, the focus is on delivering cost efficiencies and expanding counter cyclical activities, such as lettings and our recently launched repossessions business. During 2007, we purchased a majority shareholding in three small agency businesses adding 16 new branches to the Group's estate agency division.

LSL's financial services division has increased the value of its mortgage applications by 10% in 2007 to £3.31bn (2006: £3.00bn). This has been achieved through an investment in additional financial services consultants both in Reeds Rains and Linear, which has resulted in a loss for the year of £0.9m (2006: £0.8m).

HIPs were introduced in September 2007 for four bedroomed properties and subsequently phased into the rest of the market. We have introduced a number of customer offerings including an integrated HIP and conveyancing proposition providing choice to customers depending on their circumstances.

LSL announced its intention to cease trading as a provider of conveyancing services on 20 February 2008. It will continue to provide conveyancing referrals to its panel of law firms.

Main Board

The Board of LSL was established prior to the flotation in November 2006. There were no changes to the Board during 2007. The Board, in addition to myself, consists of three executives and three non executive directors. Mark Morris was appointed the Senior Independent Director on 24 October 2007.

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 customers.

In January 2008, LSL launched an HMRC approved Share Incentive Plan (Buy As You Earn) under which employees, including executive directors, can purchase shares on a monthly basis within statutory limits. This together with the Save As Your Earn Scheme launched in January 2007 has enabled the Company to provide its employees with the opportunity to share in the future success of LSL.

A number of senior management employees, including the executive directors currently own approximately 34% of LSL. The interests of these senior management employees/directors are therefore closely aligned with the interests of other shareholders.

I would like to take this opportunity to welcome new employees to the Group and to thank all employees for their continued dedication and professionalism.

Current Trading & Outlook

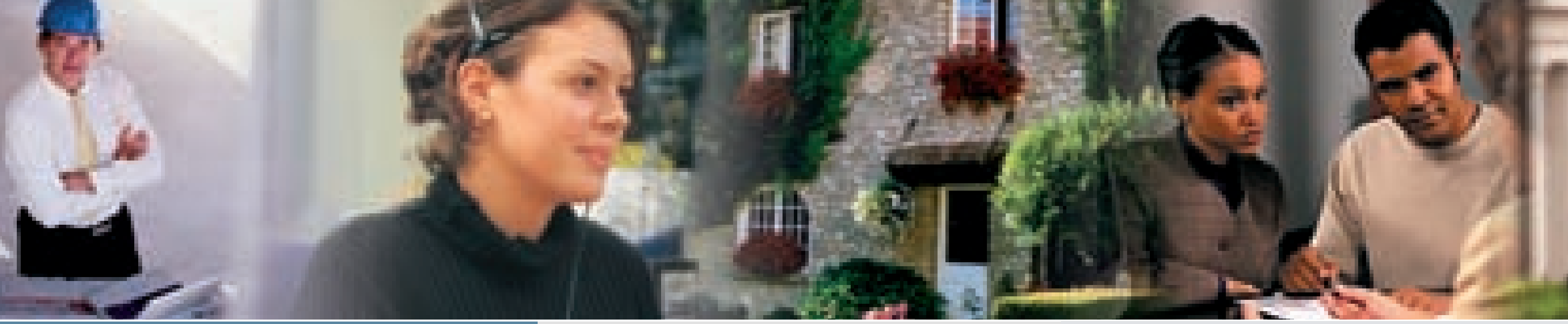
Market conditions during the second half of 2007 were challenging and transaction volumes softened further in the first eight weeks of 2008. The Board expects these challenging market conditions to continue for some time. Market recovery will be dependent upon improvements in consumer confidence and liquidity in the lending markets.

Our estate agency business will be affected by the lower activity levels in 2008, whereas the surveying division will be supported by its flexible operating model and the full year contribution from 2007 contract gains as evidenced by recent market share gains by e.surv.

Furthermore, we have a strong balance sheet and a track record of business development, both organically and through acquisition and are therefore well placed to take advantage of value creating acquisition opportunities, which are expected to arise as the year progresses.

Beyond 2008, the macroeconomic factors in the residential property market remain positive and the Board is confident in the long term growth prospects for the business.

Roger Matthews
27 February 2008



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 residential survey and valuation services including, in particular, panel management principally to the institutional lending market.

Chancellors Associates

Chancellors Associates is a national network of Chartered Surveyors undertaking a wide variety of survey and valuation work mainly for private clients.

Barnwoods

Barnwoods Chartered Surveyors is a newly formed business currently providing a network of residential surveying services on an exclusive basis to C&G and the Lloyds TSB Group.

Estate

Your Move

Your Move is an estate agency network and as at 31 December 2007 it included 292 branches across the UK, which is made up of wholly owned and franchised branches. 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 operates a network which at 31 December 2007, included 146 branches (made up of wholly owned and franchise branches) across northern England and Wales backed by a support structure of mortgage advisors and lettings centres.

LSLi

This business was launched in early 2007 and is the primary vehicle through which LSL is pursuing its strategy to acquire small to medium sized independent estate agency businesses. In 2007, it acquired 3 estate agency businesses and has a network of 16 branches based in the home counties.

Agency

Financial Services

Your Move

Your Move arranges mortgages, remortgages, life assurance and general insurances for its estate agency customers.

Reeds Rains

Reeds Rains arranges mortgages, remortgages, life assurance and general insurances for its estate agency customers.

Linear

Linear arranges mortgages, remortgages, life assurance and general insurances for customers of independent estate agents and some of the LSL Group and franchised branches.

Other Brands:

property-careers.com

property-careers.com is a specialist training provider and energy performance certificate panel manager.

First Complete

First Complete includes a number of different businesses, including an auctions business, a repossessions business and a property management business. It also sells general insurance and utility products to customers via its call centre.

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 and advice on mortgage and non-investment insurance products. The Group also provides mortgage lenders with surveys and panel management services, asset management and property management services 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.
- The surveying division has again demonstrated its excellent service provision by securing two major contract wins from C&G and Barclays during 2007.
- LSL has demonstrated some resilience against the cycles of the housing market largely due to its surveying division which represents 72% of the Group's profits and due to the flexibility of e.surv's panel management model.
- The estate agency division has a network of 454 branches, making it the third largest estate agency business in the UK. LSL is well placed to exploit consolidation opportunities in this fragmented market.[1]
- The Group has low capital expenditure (2007: £2.4m) (2006: £2.1m) and strong cash generation with net cash flow from operating activities at £29.4m (2006: £30.3m).
- LSL has made a number of successful acquisitions, including Reeds Rains, Chancellors Associates, Linear and Barnwoods.

1 Estate Agency News January 2008

- 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 longer term growth both organically and through selective acquisitions.

Our surveying division continues to be successful in driving market share largely due to its service reputation which is demonstrated by the major contract wins from Barclays and C&G in 2007.

On the acquisition front LSL is well placed to act as a consolidator in a largely fragmented market. The acquisitions made through 2005, 2006 and 2007 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. However, given current market conditions, LSL is unlikely to make further acquisitions within the estate agency sector until after the early part of 2008.

Surveying Division Business Review

The surveying businesses have performed well in 2007, growing profitability and turnover.

Key Performance Indicators:

Surveying	2007	2006	% Change
e.surv			
Turnover	**£71.8m**	£68.3m	5.0%
Underlying Operating Profit	**£20.3m**	£20.3m	0.0%
Margin	**28.2%**	29.7%	
Total Number of Jobs Performed	**443,529**	433,810	2.2%
Chancellors Associates & Other Business[2]			
Turnover	**£6.6m**	£5.7m	15.8%
Underlying Operating Profit	**£0.6m**	£0.6m	0.0%
Margin	**9.1%**	10.5%	
Barnwoods[3]			
Turnover	**£11.4m**		
Underlying Operating Profit	**£5.4m**		
Margin	**48.0%**		
Total Surveying Business			
Turnover	**£89.8m**	£74.0m	21.4%
Underlying Operating Profit	**£26.3m**	£21.0m	25.2%
Margin	**29.3%**	28.4%	

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.
- Some 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 drive synergies for the new surveying contract wins.

2 For the purposes of the comparison, the 2006 figures include the Reeds Rains surveying operation.
3 Barnwoods commenced trading in July 2007 following the contract win from C&G and the transfer of the C&G surveyors into Barnwoods.

Surveying Division

LSL operates its surveying division under its brands, e.surv, Chancellors Associates and Barnwoods and its customers are primarily mortgage lenders.

As one of the UK's leading panel managers of valuation services, LSL's surveying division is the panel manager for seven of the top ten UK lenders. During 2007, 443,529 (2006: 433,810) valuations were carried out by e.surv's employed surveyors and sub contractors.

Contract Wins

During 2007 two key contracts were won. C&G's surveying business, with a projected annual turnover in excess of £20.0m, now trading as Barnwoods, and Ekins (the Barclays Bank surveying business), with a projected annual turnover of in excess of £10.0m, which was transferred into e.surv.

The surveying contract with C&G is for an initial period of 5 years and includes exclusive panel management rights whilst the agreement with Barclays is for an initial period of 3 years.

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. e.surv has strong 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.

Hometrack Data Systems

LSL owns 14.2% of Hometrack, the leading provider of 'Automated Valuation Model' (AVM). This investment was made in 2003 and provides LSL with an insight into the AVM market and a dividend was received in 2007 amounting to £0.4m.

Estate Agency Division

The estate agency business performed well in a very difficult market. Overall the division has grown its profits during the year by 2.5% to £13.7m (2006: £13.4m).

Key Performance Indicators:

Estate Agency

Your Move & Reeds Rains

	2007	2006	% Change
Exchange Fees	**£69.3m**	£76.0m	-8.8%
Turnover	**£94.2m**	£100.9m	-6.5%
Underlying Operating Profit	**£13.7m**	£14.6m	-6.2%
Margin	**14.5%**	14.5%	

KPIs

	2007	2006	% Change
Exchange Units	**31,277**	35,255	-11.3%
Average Fee	**£2,214**	£2,156	2.7%
Expenditure	**£80.5m**	£86.3m	-6.7%

Other Brands[4]

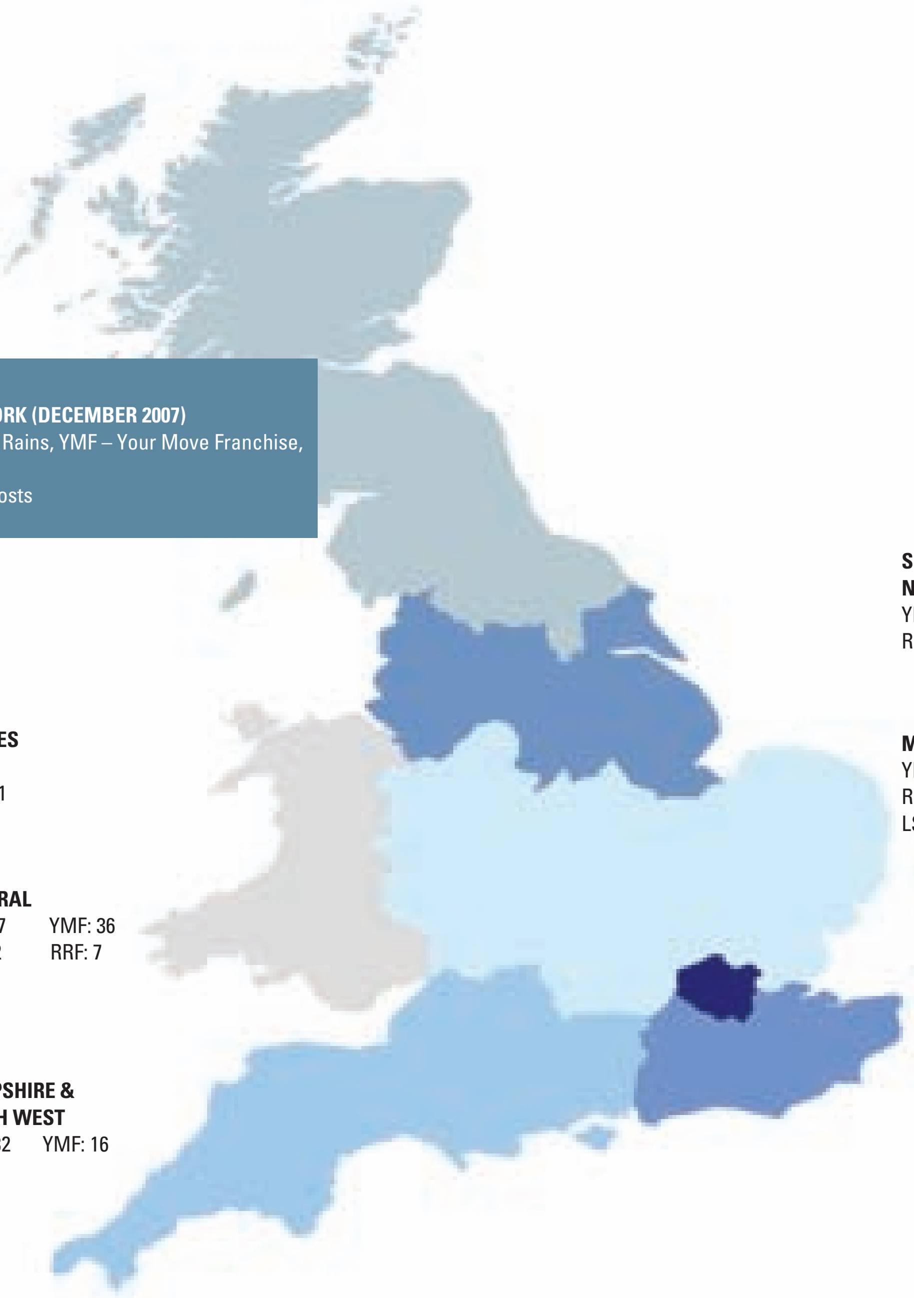
	2007	2006	% Change
Turnover	**£12.9m**	£2.2m	486%
Underlying Operating Profit	**£0.0m**	-£1.2m	–

Total Estate Agency

	2007	2006	% Change
Turnover	**£107.1m**	£103.1m	3.9%
Underlying Operating Profit	**£13.7m**	£13.4m	2.5%
Margin	**12.8%**	13.0%	

4 Other brands include Homefast, property-careers.com, LSLi subsidiaries (David Frost Estate Agents (acquired in July 2007), JNP Estate Agents (acquired in September 2007) and Intercounty (acquired in February 2007) and First Complete.)

COMBINED BRANCH NETWORK (DECEMBER 2007)
YM – Your Move, RR – Reeds Rains, YMF – Your Move Franchise,
RRF – Reeds Rains Franchise
LSLi – Intercounty + JNP + Frosts



SCOTLAND & NORTH EAST
YM: 35 YMF: 24
RR: 26 RRF: 3

WALES
RR: 5
RRF: 1

MIDLANDS
YM: 26 YMF: 1
RR: 84 RRF: 8
LSLi: 16

CENTRAL
YM: 37 YMF: 36
RR: 12 RRF: 7

LONDON
YM: 16 YMF: 10

HAMPSHIRE & SOUTH WEST
YM: 32 YMF: 16

KENT & SUSSEX
YM: 46 YMF: 13

TOTALS

Your Move	292 Total
Reeds Rains	146 Total
Intercounty	9 Total
JNP	4 Total
Frost	3 Total

Business Review

Estate Agency – Competitive Strengths & Growth Opportunities

- No 3 in the UK by number of branches[5]
- Improving financial performance in Your Move in spite of downturn
- Technically advanced proprietary browser based IT systems (Preview and Quicklet)
- www.your-move.co.uk – the number 1 UK estate agency branded website[6]
- Successful franchise model
- Increasing level of sales to customers of additional financial and other property related services
- Growing lettings business

5 Estate Agency News, January 2008

6 Hitwise, February 2008

Estate Agency Performance

Difficult market conditions in the second half of 2007 resulted in a reduction in exchange units within the main estate agency brands, Your Move and Reeds Rains, of 11%. This was offset by a marginal increase in fees by 2.7% from £2,156 to £2,214 and by a growth of penetration into other income streams. The businesses also took actions to reduce their cost base from £86.3m to £80.5m. Growth in fee levels, other income streams and cost efficiencies will be a key focus in 2008.

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.
- Franchising income, which is generated from initial deposits on new openings, a monthly service fee of 8% of turnover, plus charges for IT provision, 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 2007 lettings services were provided from 340 offices across the LSL network (figure includes franchised branches). Income growth was experienced in 2007 and further growth is expected in 2008.
- 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. HIPs potentially provide a significant future revenue stream.

Service Quality

LSL's estate agency businesses place strong emphasis on the quality of service they provide to customers and are founder 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.

property-careers.com

property-careers.com (it changed its registered name from homeinspectors.co.uk to property-careers.com in March 2007 and continues to use homeinspectors.co.uk as a trading name) is now regarded as a leading provider of training services to individuals wishing to become Home Inspectors (trading here as homeinspectors.co.uk) and more latterly Domestic Energy Assessors.

In addition, property-careers.com also provides panel management services to HIP suppliers in relation to the supply of Energy Performance Certificates and the management of Domestic Energy Assessors, trading as the energy-portal.

First Complete

First Complete is a brand that has been developed to supply lettings management services (trading as LSL Corporate Client Department) and an auctions business (trading as Baxtons). Both of these businesses were launched in 2007, and in January 2008 the business launched a repossession services business and is currently developing a tenant, landlord and guarantor referencing service (trading as First Complete Referencing).

LSLi

This business was launched in early 2007 and is the primary vehicle through which LSL is pursuing its strategy to acquire small to medium independent estate agency businesses. In 2007, it acquired the following estate agency businesses and has a network of 16 branches based in the home counties:

- ICIEA Limited, trading as "Intercounty" (acquired in February 2007 – 9 branches)
- David Frosts Estate Agents Limited, trading as "Frosts" (acquired in July 2007 – 3 branches)
- JNP (Estate Agents) Limited, trading as "The JNP Partnership" (acquired in September 2007 – 4 branches)

Financial Services Division

Financial Services — Competitive Strengths & Growth Opportunities

- Growth of 10% in mortgage applications from £3.00bn to £3.31bn
- Strong relationships with a broad panel of lenders.
- Further mortgage growth opportunities in Linear as a result of placing financial consultants in independent agencies.

Linear Financial Services and Linear Mortgage Network (together Linear) are brands placing mortgage advisors in the offices of Group agencies, franchisees and independent estate agents. The Linear brands will lose money whilst in their growth phase. Overall the business performance is in line with our plans.

Key Performance Indicators:

Financial Services	2007	2006	% Change
Turnover	£22.6m	£20.8m	8.2%
Underlying Operating Loss	(£0.9m)	(£0.8m)	-13.9%
Financial Consultant Numbers	328	312	5.1%
Mortgages applications value	£3.31bn	£3.00bn	10.0%

Review

Financial Services Performance

The Group has continued to invest in additional financial consultants during the year. As at 31 December 2007, LSL had 328 (2006: 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.

The value of mortgage applications has increased by 10% to £3.31bn (2006: £3.00bn), making LSL one of the largest mortgages intermediaries in the UK.

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 all of the other estate agency businesses 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 those 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 10.9% in the year ended 31 December 2007 to £219.5m (2006: £198.0m). The increase was supported by a contribution from Barnwoods of £11.4m and market share growth within surveying.

Operating Expenses excluding exceptional costs and amortisation

Operating expenses increased by 10.3% to £184.1m (2006: £166.9m). Excluding Barnwoods, expenses are up 6.7% reflecting the additional costs from estate agency acquisitions and the survey and administration headcount growth within e.surv as a result of the contract win from Barclays.

Underlying Operating Profit

Underlying Operating Profit was £36.5m (2006: £32.3m) up by 13.0% on 2006. This results in a continued improvement in the Underlying Operating Profit margin from 16.4% to 16.6%.

Exceptional Costs & Amortisation

Exceptional costs in the year ended 31 December 2007 amounted to £1.4m (2006: £3.5m). These costs related to redundancy and closure costs incurred in the last quarter of 2007 and included the impairment of assets within our conveyancing business, Homefast.

Net Financial Costs

Net financial costs amounted to £2.7m (2006: £4.2m). Net financial costs for 2007 included investment income from Hometrack of £0.4m (2006: nil). The 2006 net financial costs figure included a one off dividend payment of £1.3m relating to B shares in issue prior to flotation.

Taxation

The effective rate of corporation tax including the deferred tax adjustment to goodwill for the year is 29.5% (2006: 30.4%).

Adjusted Proforma Earnings Per Share

The Adjusted Proforma Earnings Per Share (as defined in the Definitions section) is 23.3p (2006: 19.8p). The directors consider this provides a better and more consistent indicator of the Group's underlying performance as the Group's capital structure changed at flotation in November 2006.

Balance Sheet

Capital Expenditure

Total capital expenditure in the year amounted to £2.4m (2006: £2.1m). The capital expenditure predominantly comprised investment in IT development and branch refurbishment.

Financial Structure

As at 31 December 2007 the Net Debt of LSL was £48.7m (2006: £34.2m). This reflects a one off payment for the C&G contract of £30.2m, the purchase of treasury shares of £2.4m and the acquisition of other subsidiaries (including deferred consideration, but net of cash acquired) of £6.7m. LSL has a £95.0m revolving credit facility in place providing some flexibility for acquisitions. This gives a Net Debt to Underlying Operating Profit ratio of 1.3 to 1 (2006: 1.1 to 1).

Cash Flow

The business is highly cash generative and has low capital expenditure requirements. Net cash inflows from operating activities amounted to £29.4m (2006: £30.3m).

Net Assets

The net assets as at 31 December 2007 were £42.9m (2006: £26.0m).

Treasury & Risk Management

LSL has an active debt management policy and has purchased an interest rate cap, 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

Director Profiles

Paul Latham 1

Deputy Group Chief Executive Officer of LSL and responsible for the Group's surveying division, aged 52. Paul was appointed as Managing Director of e.surv 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 the performance of the Group's surveying division. Since 2000 he has overseen the development of the surveying divisions into the UK's largest distributor of residential valuations. Paul holds an honours degree from the University of Reading and is a qualified Chartered Surveyor and sits on the Royal Institute of Chartered Surveyors Residential Faculty Board. He is also 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 42. 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. Dean is a Chartered Accountant.

Mark Morris 3

Senior Independent non executive director, aged 47. Mark was appointed as a non executive Director of the Board in October 2006 and as the Board's Senior Independent Director in October 2007. Mark is a Chartered Accountant and is currently non executive director and audit committee chairman at Maxima Holdings plc. Mark 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 PricewaterhouseCoopers in audit and corporate finance.

Simon Embley 4

Group Chief Executive Officer, aged 47. 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 64. 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 53. 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 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 57. Mark was appointed as a non executive director of the Board in 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. He holds a number of positions in private companies in property construction, self storage and sports equipment businesses.

Investor Information

Company details

LSL Property Services plc

Registered in England (Company Number 5114014)
Registered Office:
Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, 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 0871 664 0300 (calls cost 10p per minute plus network extras)
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	**27 February 2008**
AGM Proxy Form Deadline	**2.30pm 21 April 2008**
AGM	**2.30pm 23 April 2008**
Proposed Dividend Payment Date (payable to those on register at 25 March 2008)	**30 April 2008**

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

In accordance with its Articles of Association, LSL publishes shareholder information, including notice of AGMs and the Annual Report and accounts on its website, www.lslps.co.uk. Reducing the number of communications sent by post not only results in cost savings to LSL, it also reduces the impact that unnecessary printing and distribution of reports has on the environment.

At the 2007 AGM, a resolution was passed to amend LSL's Articles of Association to take full advantage of the provisions in the Companies Act 2006 in relation to electronic communications. In particular, the provisions enable all communications between the shareholders and LSL to be made in electronic form. Documents will be supplied via LSL's website to shareholders who have not requested a hard copy, or provided an e-mail address to which documents of information may be sent. Where a shareholder has consented to receive information via the website, a letter will be sent to the shareholder on release of any information directing them to the website.

If a shareholder wishes to continue to receive hard copy documents they should contact Capita Registrars (details above).

Report of the Directors

Principal Activities

LSL Property Services plc is the holding company for a number of residential property services related businesses. The Group's principal activities are estate agency, property management, 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 AGM will be held at the offices of Buchanan Communications, 45 Moorfields, London, EC2Y 9AE on 23 April starting at 2.30pm.

In addition to the ordinary business of an annual general meeting, the business of the AGM will include resolutions proposing amendments to the Company's Articles of Association as a result of the implementation of the Companies Act 2006. Full details are set out in the Notice to AGM.

The notice convening the AGM is in a separate circular 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.

An interim dividend of 3.00p per share was paid on 17 September 2007. The directors are recommending the payment of a final dividend of 3.86p per share. If approved by the shareholders at the AGM, the final dividend will be paid on 30 April 2008 to those shareholders on the register at the close of business on 25 March 2008. The total dividend paid for the year will be 6.86p per share.

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 has an equal opportunities policy so that all job applicants are treated fairly and without favour or prejudice throughout selection, recruitment, training, development and promotion.

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 the financial condition of LSL. These risks are recorded and managed through a risk register, and the principal risks and uncertainties identified are:

- The volatility and uncertainty of the UK housing market. In particular transaction volumes which will impact the performance of all key brands.
- Loss of key surveying clients or significant reduction in volumes either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery.
- The development of alternative products and services in competition with traditional estate agency and surveying services, such as Automated Valuation Models and supermarket property web-sites.
- Liability for negligent provision of services to customers (e.g. inaccurate surveys).
- Failure or interruptions of information technology systems upon which the Group is reliant for operational performance and financial information.
- Changes in legislation or regulation may impact on business results and may have an adverse effect on the UK housing market.
- The reputation and profitability of LSL could be adversely affected by the actions of one or a limited number of employees or franchisees.
- Inappropriate acquisitions or failure to successfully integrate into the Group.
- Loss of any licences of permission necessary for the performance of the Group businesses.
- HMRC may reduce the tax deductions historically used by LSL, increasing LSL's tax liability. In addition, HMRC may change its practice or enact legislation affecting the classification within LSL's surveying divisions' self employed surveyors, increasing LSL's tax liability.

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 28 of the Accounts.

Directors

The current directors are listed with their biographies in Directors' Profiles. There were no appointments or resignations of directors between 1 January 2007 and the date of this report.

In accordance with the Articles of Association, Simon Embley, Dean Fielding and Mark Morris will retire at the AGM and, being eligible, intend to stand for re-election. The biographical details for all directors including Simon Embley, Dean Fielding and Mark Morris are set out on page 16 of this Report. During the 2007 board effectiveness review, the performance of Simon Embley, Dean Fielding and Mark Morris was specifically evaluated and the board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

The Board may appoint an individual to act as a director, but anyone so appointed will retire from office at the next AGM and seek election. LSL may by ordinary resolution elect or re-elect an individual as a director.

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	shares at 01/01/2007	% of Issued share capital	shares at 31/12/2007	% of Issued share capital
Simon Embley	7,587,750	7.28%	7,884,074	7.57%
Dean Fielding	6,070,200	5.83%	6,111,876	5.87%
Peter Hales	–	–	–	–
Paul Latham	6,828,975	6.56%	6,909,167 [7]	6.63%[7]
Roger Matthews	49,382	0.05%	86,882	0.08%
Mark Morris	17,283	0.02%	27,283	0.03%
Mark Warburton	4,983	0.00%	7,438	0.01%

[7] Paul Latham's holding includes shares acquired by his children during 2007.

In addition to the above, Simon Embley acquired an option to acquire 4,648 ordinary shares in 2010 at a price of £1.74 per share as part of LSL's Save as You Earn scheme which started 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.

There have been no changes in director's shareholdings between the period ended 31 December 2007 and the date of this report.

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 are included in the Corporate Governance section of this report.

Share Capital

LSL 0.2 pence ordinary shares are listed on the London Stock Exchange and are the only class of shares in issue. Each issued share has the same rights attached to it as every other issued share; the rights of each shareholder include the right to vote at general meetings, to appoint a proxy or proxies, receive dividends and receive circulars from LSL.

Details of share capital are set out in note 23 of the Accounts. There have been no changes to the share capital during 2007. 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 25 February 2008, the shareholders set out below have notified LSL of their interest in 3% or more of the issued ordinary shares:

	Nature of holding	Number of 0.2 pence ordinary shares	% of issued shares
Institutions			
BPE General Partner Limited	Beneficial Owner	9,516,978	9.14%
Barclays Industrial Investment	Beneficial Owner	5,273,586	5.06%
Morstan Nominees Limited	Registered Holder	19,997,553	19.20%
State Street Nominees Limited	Registered Holder	11,836,268	11.36%
Hanover Nominees Limited	Registered Holder	3,168,472	3.04%
Individuals (excluding executive directors)			
David Newnes	Registered Holder & Beneficial Owner	5,418,171	5.20%

Employee Share Scheme

LSL have appointed Capita Trustees Limited to operate the LSL Property Services plc Employee Share Scheme (Trust) which was established prior to LSL's flotation in 2006. The Trust is able to acquire and to hold shares to satisfy options or awards granted under any discretionary share option scheme or long term incentive arrangement operated by LSL. Details of the shares acquired by the Trust are set out in note 24 of the Accounts.

The Trustees of the Scheme have waived the right to any dividend payment in respect of each share held by the Scheme.

Employee Share Incentive Plan

LSL have appointed Capita Trustees Limited to operate the LSL Property Services plc Employee Share Incentive Plan (Buy as You Earn) (Plan) (Trust) which was launched in January 2008. The Trust is able to acquire and hold shares on behalf of employees.

Charitable & Political Donations

LSL Group companies in total made charitable donations of £5,647 (2006: £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 2007, 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 Property Services plc 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

The Company had qualifying third party indemnity provision for the benefit of the directors in force from the start of the financial period to the date of this report, subject to the conditions set out in the Companies Act 1985. LSL has put in place 'Directors & Officers Liability' insurance to cover for this liability.

Post Balance Sheet Event

LSL announced its intention to cease trading as a provider of conveyancing services on 20 February 2008. It will continue to provide conveyancing referrals to its panel of law firms.

Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law.

Share Capital

At 31 December 2007, LSL's issued share capital comprised 104,158,950 £0.2p Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of £0.2p each.

Other than the lock up agreement entered into by senior managers and the directors at admission, LSL is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights. The lock up agreement (full details of which were set out in the prospectus issued in November 2006) expires in November 2008.

Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the AGM, specifies deadlines for appointing a proxy in relation to resolutions to be passed at general meeting. Where the Chairman of the AGM is appointed as proxy, such proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on LSL's website after the meeting (www.lslps.co.uk).

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions which may from time to time apply under applicable laws and regulations (for example, insider trading laws and market requirements relating to close periods) and;
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

LSL's Articles of Association may only be amended by a special resolution at a general meeting of the shareholders.

Directors of the Company who stand for re-election at the AGM may be reappointed by ordinary resolution of the shareholders. The Board can appoint a director outside of a general meeting but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any director who has held office for more than three years since their last appointment must offer themselves up for re-election at the annual general meeting.

Company share schemes

The LSL Property Services plc Employee Benefit Trust holds 0.19% of the issued share capital of the company in trust for the benefit of employees of the Group and their dependents. The voting rights in relation to these shares are exercised by the trustees.

Substantial Shareholdings

These details are set out at pages 19 and 20 of this report.

Change of control

The Company is not party to any agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Group is party to a number of banking agreements which upon a change of control of the Group are terminable by the bank and all outstanding amounts become immediately due and payable.

Approved by and signed on behalf of the Board of Directors

Sapna Bedi
Company Secretary

27 February 2008

Combined Code

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.

As at 31 December 2007, LSL complied with the provisions of the Combined Code in all respects. In the 2006 Annual Report and Accounts, the directors explained that in the period between flotation (November 2006) and the date of the Annual Report and Accounts (February 2007) LSL had complied with the Combined Code in all respects save for the following and gave a commitment to address these matters in 2007:

(a) board evaluations (principle A6); and

(b) the appointment of a senior independent director (principle A1).

Mark Morris was appointed as the senior independent director on 24 October 2007 and during the year the directors undertook an evaluation on the performance of the board. This included an evaluation of the board, the board committees and of individual directors to ensure that the directors remain individually and collectively effective. The evaluation process involved discussions between each director and the Chairman and meetings of the board and the non executive directors (including discussions without the Chairman present to appraise his performance). The non executive directors evaluate the Chairman's performance, after taking into account the views of the executive directors. No significant issues requiring action arose from these evaluations.

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.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Combined Code; his only other significant commitment was chairman of Land of Leather 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.

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.

During 2007 the board met 11 times and the attendance of each of the directors at these meetings as a director or a committee member are set out below. During 2008 the board is scheduled to meet 11 times and additional meetings will be held as required.

During 2007 the non executive directors and the Chairman collectively met twice without the executive directors being present and it is the intention that this will be repeated in 2008.

Director	Board	Audit Committee	Remuneration Committee	Nominations Committee
Roger Matthews	11	–	1	2
Simon Embley	11	–	–	–
Paul Latham	11	–	–	–
Dean Fielding	11	–	–	–
Mark Morris	11	4	4	2
Peter Hales	11	4	4	2
Mark Warburton	11	4	4	2

In accordance with the Articles of Association, Simon Embley, Dean Fielding and Mark Morris 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. The Board can appoint a director outside of a general meeting but anyone so appointed must be elected by an ordinary resolution at the next general meeting.

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 is reviewed regularly.

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.

Board Committees

The Board has delegated specific responsibilities to three standing Committees of the Board: Audit, Nominations 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 met four times in 2007 and is expected to meet four times in 2008. 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 with the auditors without the executive directors being present twice during 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 2007 appears at note 9 to the Accounts. The non audit fees related to due diligence services on acquisition of C&G contract, Intercounty and reporting on banking covenants . The amount and nature of non audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

Nominations Committee

Roger Matthews is the Chairman of the Nominations Committee and the other members of the Committee are Mark Morris, Peter Hales and Mark Warburton. The Committee met twice in 2007.

The duties of the Nominations Committee include reviewing the structure, size end 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, Mark Warburton and Roger Matthews (since December 2007). During 2007 it met four times. Simon Embley, the CEO, attended all of the meetings in an advisory capacity but he was not present when his remuneration was discussed. In addition, the Group HR Director assisted the Committee in its deliberations during this period and commenced attending Committee meetings from December 2007.

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.

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 Moorfields, London EC2Y 9AE on 23 April 2008, starting at 2.30pm.

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

Both the Chairman (Roger Matthews) and the Senior Independent Director (Mark Morris) are available to meet with shareholders to discuss any issues or concerns. They can be contacted via the Company Secretary's office (details on page 17).

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 2007 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 regularly submits reports 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 with 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

27 February 2008

Directors' Remuneration Report

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

The Remuneration Committee has considered in the financial period matters relating to the remuneration of the Chairman and the directors.

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 are reviewed periodically by the Board. With effect from 1 January 2008 Mark Morris's remuneration was increased from £35,000 to £40,000 in recognition of his role as chair of the Audit Committee and Senior Independent Director. The remuneration payable to Roger Matthews, Mark Warburton and Peter Hales remains at current levels.

None of the executive directors hold non executive directorships of any other companies other than to represent the minority interests of the Group. No remuneration is received in relation to this.

Executive Directors' Salaries

The basic salaries for 2007 of the executive directors are:

Simon Embley	£180,000
Paul Latham	£140,000
Dean Fielding	£125,000

Details of the directors' emoluments for 2007 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 not increased at the beginning of 2008 but will be reviewed at the end of the first half of 2008.

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.

The executive directors were awarded bonus payments equivalent to 50% for their basic salary for 2007.

A bonus arrangement has been put in place for the executive directors for 2008. 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 is based on LSL's budgeted Underlying Operating Profit after payment of 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 approximately 34% of LSL, and these employees are subject to a minimum two–year lock–in commencing on the date of listing (November 2006). 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 on a case to case basis. 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. During 2007, two further options were granted amounting to a total of 65,103. The 2007 awards are subject to a vesting period of 3 years and are conditional upon LSL achieving an earnings per share of at least 10% per annum during the three year vesting period.

While a Deferred Bonus Plan was adopted by the Board in November 2006, no awards have been granted under this plan to date.

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 2007 was £30,104 (2006: £29,665). This was made up as follows: Simon Embley £14,250 (2006: £12,648); Dean Fielding £8,854 (2006: £9,300); and Paul Latham £7,000 (2006: £7,717).

Director Appointments

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 in the table below.

	Continuous Employment Since	Notice Period (both parties)	Pension	Car Allowance	Holiday
Simon Embley (Group CEO)	31.08.1993	9 months	£14,250	Allowance (£10,000 p/a)	30 days
Dean Fielding (Group FD)	01.05.1995	6 months	£8,854	Allowance (£8,500 p/a)	30 days
Paul Latham (Group Deputy CEO)	21.11.1987	9 months	£7,000	Company Car	30 days

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 provides for the relevant executive director to receive medical insurance, life assurance and permanent health insurance as well as a discretionary bonus (see Performance Bonuses above for details relating to bonus awards). None of the executive directors is entitled to any benefit on termination of his service agreement other than contractual benefits to be provided during any notice period.

Non Executive Director Appointment Arrangements

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

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 overleaf. 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 months' 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 2007 are as follows

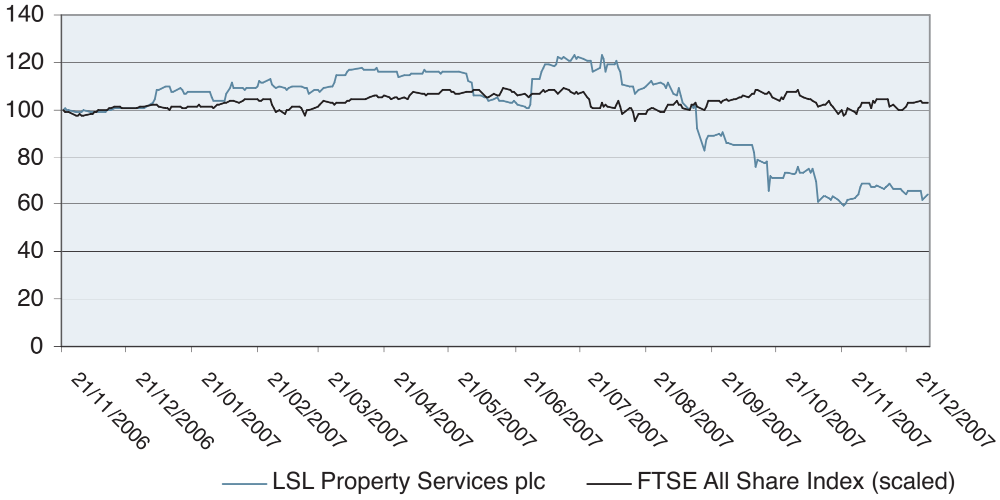
	Salary, Fees & Allowances	Related Bonuses	Benefits (excluding pension)[8]	2007 Total	2006 Total
Simon Embley (Group CEO)	£190,000	£117,164	£650	£307, 814	£295,009
Dean Fielding (Group Finance Director)	£133,500	£62,500	£1,097	£197,097	£215,820
Peter Hales (Non Executive Director)	£35,000	–	£4,550	£39,550	£34,906
Paul Latham (Deputy CEO)	£140,000	£70,000	£10,813	£220,813	£238,447
Roger Matthews (Chairman)	£100,000	–	–	£100,000	£16,667
Mark Morris (Non Executive Director)	£35,000	–	–	£35,000	£5,833
Mark Warburton (Non Executive Director)	£35,000	–	–	£35,000	£15,949

8 excludes pension but includes non cash benefits (such as healthcare)

Only 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 2007

Total shareholder return – Value (£)



This graph shows the value, by the end of December 2007, 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.

The mid market price of LSL shares in the financial period ranged from 129.75p to 267.00p

Approved by and signed on behalf of the Board of Directors

Sapna Bedi
Company Secretary

27 February 2008

Corporate Social Responsibility

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

Introduction

Statement

LSL is a leading provider of residential property services in the UK. Principal operations include its surveying division (operating under the brands of e.surv, Chancellors Associates and Barnwoods), its estate agency division (operating under the brands of Reeds Rains, Your Move, Intercounty, JNP and Frosts), and its financial services division (which includes Linear Mortgage Network and Linear Financial Services).

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.

Aim

This policy aims to set out Corporate Social Responsibility guidelines to advise employees of the policy standards and procedures which are communicated through contracts of employment, staff handbooks, operating manuals, bulletins, the intranet sites and notice boards as appropriate.

It focuses on actions that the Group can take over and above its legal requirements to address its competitive interests of the wider society and underpins all other internal policies that the Group adheres to. We actively ensure that we are compliant and proactive in respect of legislation, in accordance with our employees', customers', suppliers' and other stakeholders' interests.

Scope

All permanent and temporary employees (regardless of type of contract or terms & conditions) working within the LSL group of Companies.

Employment / Labour

Communication

LSL ensures that employees are kept informed of Group affairs via information distributed by post, e–mail, handbooks or the various intranet sites. Group employees are encouraged to discuss operational issues with their line management. The Group will promote transparency through business reviews and the production of Annual Reports. Communication through employees is encouraged as appropriate.

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.

Health, Safety & 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 HR policies, manage workplace stress levels.

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.

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.

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 end 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.

Social and Community 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 its divisions operate.

For its Employees

Each Group Company will provide standard terms and conditions of employment, and a fair and transparent remuneration policy. It aims to provide healthy and safe working conditions for all business areas.

It strives for equal opportunities for all present and potential employees and encourages employees to develop skills and progress in their careers.

It will not tolerate any sexual, physical or mental harassment of employees and will not discriminate on the grounds of colour, ethnic origin, gender, age, religion, disability, sexual orientation, political or other opinion.

For its Customers

Each Group Company seeks to be honest and fair in its relationships with its customers providing the standards of product and service that have been agreed. It takes all reasonable steps to ensure the safety and quality of products or services that it produces.

For its Suppliers

Each Group Company seeks to be honest and fair in its relationships with suppliers and subcontractors and will pay its suppliers and subcontractors in accordance with agreed terms.

Each Group Company has a policy not to offer, pay or accept bribes or substantial favours and encourages suppliers and subcontractors to abide by the principles of this policy.

Social Community and environment

Each Group Company aims to be sensitive to the local community's cultural, social and economic needs and endeavours to protect and preserve the environment where it operates. From time to time where practicable, make donations and support local and national charities.

For its Shareholders and other suppliers of finance

Each Group Company is financially accountable to its shareholders and communicates to shareholders on all matters that are material to an understanding of the future.

It aims to protect shareholders' funds, manage risks and ensure funds are used as agreed at all times.

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 2006 (where applicable) and Article 4 of the IAS Regulations. 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 2007 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 2007 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the 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 Chairman's Statement and 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 2006 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 Directors' 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 IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 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

27 February 2008

Group income statement for the year ended 31 December 2007

	Note	2007 £'000	2006 (reclassified)* £'000
Revenue	3	**219,518**	197,996
Operating expenses:			
Employee and subcontractor costs	12	**120,054**	110,141
Share–based payments	12	**650**	13
Total employee and subcontractor costs		**120,704**	110,154
Establishment costs		**12,364**	12,274
Depreciation on property, plant and equipment	15	**2,227**	2,706
Other		**48,804**	41,727
		(184,099)	(166,861)
Rental income		**1,125**	1,218
Group operating profit before exceptional costs and amortisation		**36,544**	32,353
Amortisation of intangible assets	14	**(9,145)**	(5,452)
Exceptional costs	7	**(1,413)**	(3,514)
Group operating profit	4	**25,986**	23,387
Dividend income		**373**	–
Finance income	5	**357**	660
Finance costs	6	**(3,429)**	(4,824)
Net financial costs		**(2,699)**	(4,164)
Profit before tax before adjustment to goodwill		**23,287**	19,223
Adjustment to goodwill in respect of subsequent recognition of deferred tax asset	14	**(1,000)**	–
Profit before tax	24	**22,287**	19,223
Taxation	13	**(5,867)**	(5,847)
Profit for the year	24	**16,420**	13,376
Attributable to:			
Equity holders of the parent		**16,420**	13,058
Minority interests	24	**–**	318
		16,420	13,376
Earnings per share expressed in pence per share:			
Basic	10	**15.8**	23.1
Diluted	10	**15.7**	23.1

* the details of the reclassification are given in notes 3 and 12.

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

Statement of group recognised income and expense for the year ended 31 December 2007

Total recognised income and expense for the year:

	Note	2007 £'000	2006 £'000
Profit for the year		**16,420**	13,376
Available-for-sale investments:			
Valuation gains taken to equity	16	**5,500**	–
Total recognised income and expense		**21,920**	13,376
– Attributable to equity holders of the parent		**21,920**	13,058
– Attributable to minority interest		–	318
		21,920	13,376

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

Group balance sheet As at 31 December 2007

	Note	2007 £'000	2006 £'000
Non–current assets			
Goodwill	14	**69,572**	65,463
Other intangible assets	14	**41,562**	17,669
Property, plant and equipment	15	**4,600**	4,321
Financial assets	16	**5,650**	148
Other receivables	17	**129**	229
Total non–current assets		**121,513**	87,830
Current assets			
Trade and other receivables	17	**21,458**	22,187
Cash and cash equivalents	18	**2,326**	578
Total current assets		**23,784**	22,765
Total assets		**145,297**	110,595
Current liabilities			
Financial liabilities	20	**17,350**	5,402
Trade and other payables	19	**39,909**	36,915
Current tax liabilities		**4,957**	5,575
Provisions for liabilities and charges	21	**339**	130
Total current liabilities		**62,555**	48,022
Non–current liabilities			
Financial liabilities	20	**33,640**	29,337
Trade and other payables	19	**97**	–
Deferred tax liability	13	**1,892**	3,424
Provisions for liabilities and charges	21	**4,175**	3,846
		39,804	36,607
Net assets		**42,938**	25,966
Equity			
Share capital	23	**208**	208
Share premium account	24	**5,629**	5,629
Share–based payment reserve	24	**560**	13
Investment in treasury shares	24	**(2,669)**	(298)
Unrealised gain reserve	24	**5,500**	–
Retained earnings	24	**33,710**	20,414
		42,938	25,966
Minority interests	24	**–**	–
Total equity		**42,938**	25,966

The financial statements were approved by the Board on 27 February 2008 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 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Cash generated from operating activities					
Profit before tax			**22,287**		19,223
Adjustments to reconcile profit before tax to net cash inflows from operating activities					
Amortisation		**9,145**		5,452	
Dividend income		**(373)**		–	
Finance income		**(357)**		(660)	
Finance costs		**3,429**		4,824	
Adjustment in relation to deferred tax asset		**1,000**		–	
			12,844		9,616
Group operating profit before amortisation			**35,131**		28,839
IPO costs		**–**		3,514	
Depreciation	15	**2,227**		2,706	
Impairment of goodwill	7	**130**		–	
Impairment of property, plant and equipment	7	**207**		–	
(Profit)/loss on sale of property, plant and equipment		**(30)**		21	
Share–based payments		**650**		13	
Amounts written off available for sale financial assets		**–**		345	
		3,184		6,599	
Decrease/(increase) in trade and other receivables		**2,050**		(4,394)	
Increase in trade and other payables and provisions		**2,139**		9,657	
			7,373		11,862
Cash generated from operations			**42,504**		40,701
Interest paid		**(3,429)**		(3,272)	
Dividends paid on 'B' shares prior to listing		**–**		(1,320)	
Tax paid		**(9,662)**		(5,852)	
			(13,091)		(10,444)
Net cash from operating activities			**29,413**		30,257
Cash flows from investing activities					
Purchase of subsidiary undertakings, minority interest and commercial business	26	**(3,806)**		(38,449)	
Purchase of intangible assets	14	**(30,192)**		–	
Interest received		**357**		660	
Dividends received		**373**		–	
Purchase of property, plant and equipment	15	**(2,422)**		(2,073)	
Proceeds from sale of property, plant and equipment		**139**		6,134	
Purchase of available for sale financial assets		**(2)**		–	
Net cash expended on investing activities			**(35,553)**		(33,728)
Net cash from operating activities less cash expended on investing activities			**(6,140)**		(3,471)
Cash flows from financing activities					
Repayment of loans		**(5,402)**		(42,075)	
Proceeds from loans		**18,785**		33,414	
Purchase of treasury shares		**(2,371)**		(298)	
IPO costs		**–**		(3,514)	
Dividends paid		**(3,124)**		–	
Net cash generated/(used) in financing activities			**7,888**		(12,473)
Net increase/(decrease) in cash and cash equivalents			**1,748**		(15,944)
Cash and cash equivalents at the beginning of the period			**578**		16,522
Cash and cash equivalents at the end of the period	18		**2,326**		578

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

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

The Group financial statements of LSL Property Services plc and its subsidiaries for the year ended 31 December 2007 were authorised for issue by the board of the directors on 27 February 2008 and the balance sheet was signed on the board's behalf by S D Embley and D A Fielding. LSL Property Services plc is a listed company incorporated and domiciled in England & Wales and the Group operates a network of estate agencies, surveying businesses, conveyancing businesses 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.

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 as they apply to the financial statements of the Group for the year ended 31 December 2007 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 2007. 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 assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangible assets

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 14).

Fair value of unquoted equity instruments

The unquoted equity instruments have been valued based on the expected dividend cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future dividend cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unquoted equity instruments at 31 December 2007 is given in note 16.

Basis of consolidation

The Group financial statements incorporate the financial statements of LSL Property Services plc and the entities controlled by the Group (its subsidiaries) for the year ended 31 December 2007 and 31 December 2006. 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 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.

The cost of business combination includes amounts contingent on future events if the payment is considered probable and can be measured reliably. Any subsequent adjustments in respect of such contingent consideration (other than due to unwinding of the discount) is adjusted against the carrying amount of goodwill.

2. Accounting policies (continued)

Basis of consolidation (continued)

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.

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

Changes in accounting policies and estimates

New accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where necessary.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 28.

Change in accounting estimates

During the year, the amortisation period in respect of general insurance renewal commission contracts was revised from between six and ten years to between six and seven and a half years in line with the expected future economic benefits. This change in estimate resulted in additional amortisation charge of £143,000 in 2007.

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 or statutory company level as the case may be. 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.

2. Accounting policies (continued)

Other Intangible assets (continued)

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 seven and a half years
Lettings contracts	– fifteen months
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.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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.

2. Accounting policies (continued)

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 to four years
Motor vehicles	– over three to 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 and paid. 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
- 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

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

Equity–settled transactions

The equity 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.

Cash–settled transactions

The Group has issued shares in a subsidiary company to the management of that company with restrictions on transferability. The Group has a call option on these shares and these shares are considered as a cash–settled share scheme. The liability under the call option is measured at its fair value. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the period.

2. Accounting policies (continued)

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. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. 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.

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. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. 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.

2. Accounting policies (continued)

Financial instruments (continued)

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 to financial institutions which were linked to borrowing costs.

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. The Group has not adopted hedge accounting for its derivative financial instruments. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement.

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.

Assets carried at amortised cost

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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.

2. Accounting policies (continued)

Classification of shares as debt or equity (continued)

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:

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.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

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.

2. Accounting policies (continued)

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)

		Effective date*
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated & Separate Financial Statements (revised January 2008)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)

New interpretations

		Effective date*
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2008
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

*The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group has elected to prepare their financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

Whilst the revised IAS 1 will have no impact on the measurement of the Group's results or net assets, it is likely to result in certain changes in the presentation of the Group's financial statements from 2009 onwards.

IFRS 8 requires disclosure based on information presented to the board. Whilst this is now expected to change the business segments about which information is given, the secondary segment information will be replaced by group–wide analysis of revenues and non–current assets by major geographical area. We do not expect to have customers that individually account for more than 10% of total revenues.

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

3. Revenue

Revenue represents the amounts derived from the provision of 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:

	2007 £'000	2006 (reclassified) £'000
Revenue from services	**219,518**	197,996
Revenue	**219,518**	197,996
Rental income	**1,125**	1,218
Dividend income	**373**	–
Finance revenue	**357**	660
Total revenue	**221,373**	199,874

The Group has restated 2006 revenue by £545,000 to include other lettings income as these are in the nature of revenue rather than other operating income.

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 and Linear network.

Year ended 31 December 2007

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	107,110	89,866	22,542	–	**219,518**
Segmental result:					
– before exceptional costs and amortisation of intangible assets	13,708	26,312	(870)	(2,606)	**36,544**
– after exceptional costs and amortisation of intangible assets	10,373	20,149	(1,995)	(2,541)	**25,986**
Dividend income					**373**
Finance income					**357**
Finance costs					**(3,429)**
Profit before tax before adjustment to goodwill					**23,287**
Adjustment to goodwill in respect of subsequent recognition of deferred asset					**(1,000)***
Profit before tax					**22,287**
Taxation					**(5,867)**
Profit for the year					**16,420**

* This relates to the estate agency and related activities segment.

4. Segment reporting (continued)

Year ended 31 December 2007

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Balance sheet information					
Segment assets	65,162	53,024	17,223	9,888	**145,297**
Segment liabilities	(18,547)	(21,888)	(5,254)	(56,670)	**(102,359)**
Net assets/(liabilities)	46,615	31,136	11,969	(46,782)	**42,938**
Other segment items					
Capital expenditure	1,401	835	176	10	**2,422**
Acquisition of property, plant and equipment on acquisition of subsidiaries	390	3	7	–	**400**
Acquisition of intangible asset*	–	30,192	–	–	**30,192**
Intangibles assets identified as part of IFRS 3 purchase price allocation	2,836	2	8	–	**2,846**
Depreciation	(1,670)	(477)	(80)	–	**(2,227)**
Amortisation of intangible assets	(2,325)	(5,717)	(1,103)	–	**(9,145)**
Professional indemnity claim provision	–	(2,391)	–	–	**(2,391)**
Onerous leases provision	(566)	–	–	–	**(566)**
Adjustment to goodwill in respect of subsequent recognition of deferred tax	(1,000)	–	–	–	**(1,000)**
Share based payment	(275)	(291)	(84)	–	**(650)**
Impairment of trade receivables	(364)	(495)	–	–	**(859)**
Impairment of other receivables	(8)	–	–	–	**(8)**
Impairment of property, plant and equipment	(207)	–	–	–	**(207)**
Impairment of goodwill	(130)	–	–	–	**(130)**

* Acquisition of intangible asset relates to the consideration paid to Cheltenham & Gloucester for the purchase of an exclusive agreement to provide panel management services for five years.

Year ended 31 December 2006 (reclassified)

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	103,118	74,041	20,837	–	**197,996**
Segmental result:					
– before exceptional costs and amortisation of intangible assets	13,372	21,008	(764)	(1,263)	**32,353**
– after exceptional costs and amortisation of intangible assets	11,669	18,261	(1,766)	(4,777)	**23,387**
Finance income					**660**
Finance costs					**(4,824)**
Profit before tax					**19,223**
Taxation					**(5,847)**
Profit for the year					**13,376**

4. Segment reporting (continued)

Year ended 31 December 2006

	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**
Intangible assets 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 leases provision	(629)	–	–	–	**(629)**
Share–based payment	–	–	–	(13)	**(13)**
Impairment of trade receivables	(37)	(20)	–	–	**(57)**
Impairment of other receivables	(62)	–	–	–	**(62)**
Impairment of available–for–sale financial assets	(345)	–	–	–	**(345)**

5. Finance income

	2007 £'000	2006 £'000
Interest receivable on funds invested	**357**	644
Interest receivable – other	–	16
	357	660

6. Finance costs

	2007 £'000	2006 £'000
Bank interest:		
Commercial loan	–	36
Other loans	**3,429**	3,468
Dividend paid on 'B' shares prior to listing	–	1,320
	3,429	4,824

Interest on other loans includes the write off of unamortised loan arrangement fees of £nil (2006: £780,000).

7. Exceptional costs

	2007 £'000	2006 £'000
IPO costs	–	3,514
Establishment costs		
Onerous leases provision due to branch closures	**501**	–
Employee costs		
Redundancy costs due to branch closures	**575**	–
Other		
Impairment of property, plant and equipment	**207**	–
Impairment of goodwill	**130**	–
	1,413	3,514

Homefast Property Lawyers Limited ('Homefast') has continued to incur operating losses during the year and an impairment review was conducted in accordance with the accounting policy. As a result of this impairment review the entire net book value of property, plant and equipment of £207,000 and carrying value of goodwill relating to Homefast of £130,000 were impaired. There is no further value associated to any non–current assets in this business.

8. Profit before tax

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

	2007 £'000	2006 £'000
Auditors' remuneration (note 9)	**314**	688
Operating lease rentals:		
Land and buildings	**8,493**	8,170
Plant and machinery	**2,529**	1,858
(Profit)/loss on disposal of property, plant and equipment	**(30)**	21
Impairment of available for sale financial assets	–	345

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2007 £'000	2006 £'000
Audit of the financial statements †	**68**	42
Other fees to auditors:		
– local statutory audits for subsidiaries	**134**	83
– other services supplied pursuant to legislation	**29**	468
– corporate finance services	**80**	–
– other services	**3**	95
	314	688

† £49,000 (2006: £42,000) of this relates to the Company and £19,000 relates to an under accrual of prior year audit fees.

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**	**2007 Per share amount *Pence***	Profit after tax £'000	Weighted average number of shares	2006 Per Share Amount *Pence*
Basic EPS	**16,420**	**103,647,347**	**15.8**	13,058	56,622,461	23.1
Effect of dilutive share options	**–**	**609,076**	**–**	–	14,303	–
Diluted EPS	**16,420**	**104,256,423**	**15.7**	13,058	56,636,764	23.1

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

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

	2007 £'000	2006 £'000
Profit after tax	**16,420**	13,058
Adjusted after tax for:		
Exceptional costs	**989**	2,460
Amortisation	**6,401**	3,816
Dividend on 'B' ordinary shares	**–**	1,320
Share–based payment	**455**	9
Adjusted profit after tax	**24,265**	20,663

11. Dividends paid and proposed

	2007 £'000	2006 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Interim dividend for 2007: 3 pence (2006: nil)	**3,124**	–
Proposed for approval at AGM (not recognised as a liability as at 31 December):		
Equity dividends on ordinary shares:		
Final dividend for 2007: 3.86 pence per share (2006: nil)	**3,976**	–

12. Directors and employees

Remuneration of directors

	2007 £'000	2006 £'000
Directors' emoluments (Short–term benefits)	**935**	812
Contributions to money purchase pensions schemes (Post employment benefits)	**30**	30
	965	842

Consultancy fees and expenses of £2,418 (2006: £21,773) 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 (2006: 3).

The remuneration of the highest paid director amounted to £307,814 (2006: £295,009) excluding pension costs. Group contributions to money purchase pension schemes for that director amounted to £14,250 (2006: £12,648) in the year.

Directors' contributions to pension schemes were matched by the Group up to a maximum of 10% of pensionable earnings until the end of July 2007. From August 2007 the Group's contributions reverted to 5% of pensionable salaries where members contribute, and the cost of the death–in–service benefits.

12. 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:

	2007 **£'000**	2006 (reclassified) £'000
Wages and salaries	**95,729**	88,983
Social security costs	**9,836**	9,465
Pension costs	**1,932**	1,492
Share–based payment expense (see below)	**650**	13
Total employee costs	**108,147**	99,953
Subcontractor costs	**12,557**	10,201
Total employee and subcontractor costs	**120,704**	110,154

The subcontractor costs were classified as part of other operating expenses during the previous year. This has been reclassified as these costs relate to outsourced surveying.

The monthly staff numbers (including directors) during the year averaged 3,380 (2006: 3,351).

	2007 **£'000**	2006 £'000
Estate agency and related activities	**2,046**	2,193
Surveying and valuation services	**925**	813
Financial services	**409**	345
	3,380	3,351

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

Long Term Incentive Plan

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 and providing the performance conditions are met.

	2007		2006	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	**–**	**130,512**	–	–
Granted during the year	**–**	**65,103**	–	130,512
Outstanding at 31 December	**–**	**195,615**	–	130,512

There were no options exercisable at the end of the year (2006: none).

The weighted average fair value of options granted during the year was £2.13 (2006: £1.85) and the weighted average remaining contractual life was 2.19 years (2006 : 2.96 years).

12. Directors and employees (continued)

Share–based payments (continued)

Save–As–You–Earn scheme

In December 2006, the Group announced an employee 'Save–as–you–earn' scheme effective from January 2007. This scheme is open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant less 20%. The options will vest if the employee remains in service for the full duration of the option scheme (three years). There are no cash settlement alternatives.

	2007		2006	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	–	–	–	–
Granted during the year	**1.74**	**2,131,034**	–	–
Outstanding at 31 December	**1.74**	**2,131,034**	–	–

The weighted average of the fair value of the options was £0.63 and the weighted average remaining contractual life was 2.01 years (2006 : not applicable).

There were no options exercisable at the end of the year (2006: none).

Equity–settled

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.

	2007		2006
	SAYE	**LTIPs**	LTIPs
Option pricing model used	**Black Scholes**	**Black Scholes**	Black Scholes
Weighted average share price at grant date (£)	**2.35**	**2.38**	2.17
Exercise price (£)	**1.74**	**nil**	nil
Expected life of options (years)	**3 years**	**3 years**	3 years
Expected volatility	**11**	**11**	35
Expected dividend growth rate	**3.68%**	**3.68%**	3%
Risk free interest rate	**5.5%**	**5.5%**	5%

Total cost recognised for equity settled transactions is £547,000 (2006: £13,000). Of this £5,000 (2006: £2,000) relates to employees of the Company.

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.

Cash–settled

During the year, the Group issued shares in a subsidiary undertaking to certain employees of that subsidiary. The shares transferred are subject to restrictions on transferability if the concerned employees are not in continuous employment in the Group. The Group also has a 'call option' on these shares and the exercise price for the call option is based on future profitability of the subsidiary. The Group has accounted for this share transfer as a cash–settled share–based payment due to the nature of the transaction and recognised a share–based payment charge of £103,000 (2006: £nil) using a discount factor rate of 7 per cent. None of this cost relates to the Company.

13. Taxation

(a) Tax on profit

Tax charged in the income statement comprises:

	2007 £'000	2006 £'000
UK corporation tax		
– current year	**9,494**	8,918
– tax overprovided in prior year	**(285)**	(142)
– utilisation of tax losses	**(1,000)**	–
	8,209	8,776
Deferred tax:		
Origination and reversal of temporary differences	**(2,342)**	(2,929)
Total deferred tax	**(2,342)**	(2,929)
Total tax charge in the income statement	**5,867**	5,847

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2006: higher) than the standard UK corporation tax rate, because of the following factors:

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	**22,287**	19,223
Profit on ordinary activities multiplied by rate of corporation tax rate in the UK of 30%	**6,686**	5,767
Disallowable expenses	**780**	1,564
Recognition of deferred tax asset on temporary differences previously not recognised	**(48)**	(1,296)
Reduction in deferred taxes resulting from reduction in tax rate	**(228)**	–
Other	**(38)**	(46)
	7,152	5,989
Utilisation of tax losses on which deferred tax asset was not recognised previously	**(1,000)**	–
Prior period adjustments – current tax	**(285)**	(142)
Total taxation charge	**5,867**	5,847

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

	2007 £'000	2006 £'000
Property, plant and equipment temporary differences	**39**	36
Other temporary differences	**304**	240
Losses	**482**	546
	825	822

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.

13. Taxation (continued)

(d) Deferred tax

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

	2007 £'000	2006 £'000
Deferred tax liability at 1 January	**3,424**	6,258
Deferred tax liability on recognition of separately identifiable intangible assets on acquisition of subsidiaries	**810**	95
Deferred tax credit in income statement for the year (note 13a)	**(2,342)**	(2,929)
Deferred tax liability at 31 December	**1,892**	3,424

Analysed as:

	2007 £'000	2006 £'000
Depreciation in excess of capital allowances	**(840)**	(1,154)
Deferred tax liability on separately identifiable intangible assets on business combination	**4,070**	5,251
Deferred tax on share options	**(189)**	–
Other short–term temporary differences	**(1,149)**	(673)
	1,892	3,424

Deferred tax credit in income statement relates to the following:

	2007 £'000	2006 £'000
Amortisation of intangible assets recognised on business combinations	**1,641**	1,645
Depreciation in excess of capital allowance	**(237)**	992
Deferred tax on share options	**189**	–
Reduction in deferred taxes resulting from reduction in tax rate	**228**	–
Other temporary differences	**521**	292
	2,342	2,929

At 31 December 2007, there was no recognised deferred tax liability (2006: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries.

14. Intangible assets

Goodwill

	2007 £'000	2006 £'000
Cost		
At 1 January	**65,463**	22,333
Acquisition of subsidiary undertakings	**5,239**	727
Acquisition of surveying business	**–**	1,810
Acquisition of minority interest in existing subsidiaries	**–**	40,593
Adjustment in respect of subsequent recognition of deferred tax asset	**(1,000)**	–
Impairment of goodwill (note 7)	**(130)**	–
At 31 December	**69,572**	65,463

An impairment review was undertaken of the goodwill and it was concluded that an impairment loss of £130,000 should be recognised to write down the goodwill in Homefast Property Lawyers Limited (note 7).

14. Intangible assets (continued)

Goodwill (continued)

The adjustment to goodwill of £1,000,000 relates to recognition of a deferred tax asset on tax losses which have been realised during the year. However, a deferred tax asset related to these tax losses was not recognised at the time of accounting for the business combination, in accordance with IFRS 3 Business Combinations.

	2007	2006
	£'000	£'000
Carrying amount of goodwill by operating unit		
Estate agency unit	**60,199**	56,095
Surveying unit	**8,487**	8,487
Financial services unit	**886**	881
	69,572	65,463

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:

	2007	2006
	£'000	£'000
Estate agency unit	**4,232**	3,751
Surveying unit	**1,434**	1,434
Financial services unit	**38**	38
	5,704	5,223

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 12% (2006: 15%) and cash flows beyond the 3–year budget are extrapolated using a 2% (2006: 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 10% (2006: 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 12% (2006: 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%.

14. Intangible assets (continued)

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.

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.

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 an impairment of £130,000 in respect of the carrying amount of goodwill held on the balance sheet regarding Homefast Property Lawyers Limited (included in the 'estate agency' cash generating unit).

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 2007:

General	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other* £'000	Total £'000
Cost							
At 1 January 2007	5,223	14,582	5,612	1,450	3,435	1,127	31,429
Additions	–	30,192	–	–	–	–	30,192
Arising on acquisition of subsidiaries	481	–	–	594	1,771	–	2,846
At 31 December 2007	**5,704**	**44,774**	**5,612**	**2,044**	**5,206**	**1,127**	**64,467**
Aggregate amortisation and impairment							
At 1 January 2007	–	6,956	1,289	1,450	3,435	630	13,760
Charge for the year	–	5,918	888	581	1,574	184	9,145
At 31 December 2007	**–**	**12,874**	**2,177**	**2,031**	**5,009**	**814**	**22,905**
Carrying amount							
At 31 December 2007	**5,704**	**31,900**	**3,435**	**13**	**197**	**313**	**41,562**

14. Intangible assets (continued)

Other intangible assets (continued)

As at 31 December 2006:

General	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other* £'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
At 31 December 2005	**5,032**	**10,385**	**5,068**	**364**	**1,184**	**773**	**22,806**

* Others relate to in–house software and franchise agreements.

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,
- Chancellors Associates, a surveying business which was acquired by the Group in July 2006,
- ICIEA, a network of estate agencies which were acquired by the Group in February 2007,
- David Frosts Estate Agents, a network of estate agencies which were acquired by the Group in July 2007, and
- JNP Estate Agents, a network of estate agencies which were acquired by the Group in September 2007.

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.

15. Property, plant and equipment

As at 31 December 2007

	Leasehold improvements £'000	Motor vehicles £'000	Fixture, fittings and computer equipment £'000	Total £'000
Cost				
At 1 January 2007	3,624	137	12,542	16,303
Additions	51	27	2,344	2,422
Acquired on acquisitions of subsidiaries	25	157	218	400
Disposals	–	(145)	(1,577)	(1,722)
At 31 December 2007	**3,700**	**176**	**13,527**	**17,403**
Depreciation and impairment				
At 1 January 2007	3,243	121	8,618	11,982
Charge for the year	158	19	2,050	2,227
Impairment (note 7)	138	–	69	207
Disposals	–	(131)	(1,482)	(1,613)
At 31 December 2007	**3,539**	**9**	**9,255**	**12,803**
Carrying amount				
At 31 December 2007	**161**	**167**	**4,272**	**4,600**

As at 31 December 2006

	Leasehold improvements £'000	Motor vehicles £'000	Fixture, 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 acquisitions 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**
At 31 December 2005	**723**	**119**	**4,239**	**5,081**

16. Financial assets

Available–for–sale financial assets

	2007 £'000	2006 £'000
Unquoted shares carried at cost	**495**	493
Impairment	**(345)**	(345)
	150	148
Unquoted shares carried at fair value	**5,500**	–
Carrying value	**5,650**	148

Unquoted shares carried at cost

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

Unquoted shares carried at fair value

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 2006, the financial asset was carried at cost as the fair value could not be reliably measured. In 2007, the value of the unlisted equity shares in Hometrack Data Systems Limited has been estimated on the basis of the present value of the expected future dividend to perpetuity and assumed earnings growth of 3% per annum and a discount rate of 12%. The Directors consider this is the best proxy of current value. Management has estimated that the potential effect of using reasonably possible alternatives for expected future dividend would not result in a significant change in the above valuation.

Management have reviewed the carrying amount of the financial assets for impairment at 31 December 2007 by reference to the present value of future cash flows and concluded that there have been no further impairment required (2006: £345,000).

17. Trade and other receivables

	2007 £'000	2006 £'000
Current		
Trade receivables	**15,341**	18,011
Other receivables	**27**	27
Prepayments	**6,090**	4,149
	21,458	22,187
Non–current		
Other receivables	**88**	83
Prepayments	**41**	146
	129	229

Trade receivables are non–interest bearing and are generally on 0–90 days' terms.

As at 31 December 2007, trade receivables at nominal value of £1,715,000 (2006: £878,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2007 £'000	2006 £'000
At 1 January	**878**	762
On acquisition of subsidiaries	**67**	–
Charge for the year	**859**	57
Amounts written off	**(71)**	120
Unused amounts reversed	**(18)**	(61)
At 31 December	**1,715**	878

17. Trade and other receivables (continued)

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired 0–90 days £'000	>90 days £'000
2007	**15,341**	**9,856**	**5,188**	**297**
2006	18,011	12,760	4,940	311

18. Cash and cash equivalents

	2007 £'000	2006 £'000
Short–term deposits	**2,326**	578

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 £2.3m (2006: £0.6m). At 31 December 2007, the Group had available £47.8m of undrawn committed borrowing liabilities in respect of which all conditions precedent had been met (2006: £46.7m).

19. Trade and other payables

	2007 £'000	2006 £'000
Current		
Trade payables	**8,919**	5,856
Other taxes and social security payable	**7,452**	6,591
Other payables	**523**	566
Accruals	**23,015**	23,902
	39,909	36,915
Non–current		
Accruals	**97**	–

Terms and conditions of the above financial liabilities:

- Trade payables are non–interest bearing and are normally settled on 30–day terms.
- Other payables are mainly non–interest bearing and have an average term of three months.

20. Financial liabilities

	2007 £'000	2006 £'000
Current		
Secured bank loans – Revolving credit facility	**16,948**	4,874
Secured bank loans – B notes	–	472
Unsecured bank loan	**36**	34
Unsecured loan notes	**100**	–
Other secured loan payable to a director of a subsidiary	**75**	–
Other unsecured loan	**191**	22
	17,350	5,402
Non–current		
Secured bank loans – Revolving credit facility	**30,501**	28,540
Unsecured bank loan	**46**	82
Unsecured loan notes payable in 2009	**997**	–
Other unsecured loan	**222**	715
Cash–settled payment	**103**	–
Contingent consideration	**1,771**	–
	33,640	29,337

Secured bank loans – Revolving credit facility

The secured bank loans totalling £47.4m (2006: £33.4m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions Limited, First Complete Limited and its subsidiaries, property–careers.com Limited, Chancellors Associates Limited and LSLi Limited and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £95m facility. The banking facility expires in July 2009 but can be extended at that date until July 2011. The revolving credit facility is repayable when funds permit.

Interest payable on the revolving credit facility amounted to £2.9m (2006 £1.2m). The interest rate applicable to the facility is LIBOR plus a margin rate of 0.65%. The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

Secured bank loans – B Notes

In 2006, the loan was guaranteed by the Group's bankers, Barclays Bank plc. This was fully repaid in 2007.

Unsecured bank loan

An unsecured bank loan of £82,000 (2006: £116,000) is outstanding to Barclays Bank plc by a group company. This is repayable over five years ending in June 2010 and incurs interest at a fixed rate of 10% per annum.

Unsecured loan notes

Unsecured loan notes of £1,097,000 (2006: £nil) are outstanding in respect of consideration relating to acquisitions by a group company during the year. £100,000 is repayable on 2008 and the remainder in 2009, with a fixed rate of 5% per annum.

Other secured loan

A secured loan of £75,000 (2006: £nil) is outstanding to a director of a subsidiary by a group company. This is repayable by 31 December 2008 and incurs interest at a variable rate of 2% above the current bank base rate. This loan is guaranteed by a debenture secured over the assets of a subsidiary company.

Other unsecured loan

An unsecured loan of £413,000 (2006: £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.

In 2006, an unsecured loan of £136,000 was outstanding to a director of a subsidiary company by the subsidiary company. This was repayable when funds permit and incurs interest at a fixed rate of 6.5%.

20. Financial liabilities (continued)

Cash–settled share–based payment

An explanation is given in detail in note 12.

Contingent consideration

£2,267,437 of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries during the year. This is payable between three and five years after the acquisition dates. The consideration was recorded at a fair value of £1,771,236 on acquisition using a discount rate of 7 per cent (note 26), since it is considered, that payment is probable and can be measured reliably.

21. Provisions for liabilities and charges

	2007			2006		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1 January	**3,237**	**739**	**3,976**	2,647	260	2,907
Amount utilised	**(881)**	**(106)**	**(987)**	(697)	(91)	(788)
Amount released	**(822)**	**(610)**	**(1,432)**	(595)	(59)	(654)
Provided in financial year	**2,391**	**566**	**2,957**	1,882	629	2,511
Balance at 31 December	**3,925**	**589**	**4,514**	3,237	739	3,976
Current	**–**	**339**	**339**	–	130	130
Non–current	**3,925**	**250**	**4,175**	3,237	609	3,846
	3,925	**589**	**4,514**	3,237	739	3,976

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 November 2014.

22. 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:

	2007			2006		
	Land and Building £'000	**Plant and machinery £'000**	**Total £'000**	Land and Building £'000	Plant and machinery £'000	Total £'000
No later than one year	**7,001**	**2,186**	**9,187**	7,139	2,010	9,149
After one year but not more than five years	**20,847**	**2,236**	**23,083**	19,715	2,533	22,248
After five years	**15,431**	**–**	**15,431**	15,388	2	15,390
	43,279	**4,422**	**47,701**	42,242	4,545	46,787

22. Obligations under leases (continued)

Operating leases (continued)

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:

	2007 Land and Buildings £'000	2006 Land and Buildings £'000
Not later than one year	**622**	355
After one year but not more than five years	**1,803**	587
After five years	**903**	539
	3,328	1,481

23. Share capital

	2007		2006	
	Shares	**£'000**	Shares	£'000
Authorised:				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1 January	**104,158,950**	**208**	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**	104,158,950	208

At 1 January 2005, the issued and fully paid share capital of £1,000,000 was made up of 1,000,000 'A' ordinary shares.

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 6.49% 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.

In 2006, the 1,000,000 'B' ordinary shares, which were classified as debt in 2005 had been reclassified as share capital as they were converted into ordinary shares prior to listing and were not entitled to any further cumulative dividend.

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

24. Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Investment in treasury shares £'000	Unrealised gains reserve £'000	Retained earnings £'000	Total equity £'000	Minority interest £'000	Total £'000
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 treasury shares	–	–	–	(298)	–	–	(298)	–	(298)
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
At 1 January 2007	**208**	**5,629**	**13**	**(298)**	**–**	**20,414**	**25,966**	**–**	**25,966**
Purchase of treasury shares	–	–	–	**(2,371)**	–	–	**(2,371)**	–	**(2,371)**
Share–based payments	–	–	**547**	–	–	–	**547**	–	**547**
Revaluation of available-for-sale financial assets	–	–	–	–	**5,500**	–	**5,500**	–	**5,500**
Dividend paid	–	–	–	–	–	**(3,124)**	**(3,124)**	–	**(3,124)**
Profit for the year	–	–	–	–	–	**16,420**	**16,420**	–	**16,420**
Balance at 31 December 2007	**208**	**5,629**	**560**	**(2,669)**	**5,500**	**33,710**	**42,938**	**–**	**42,938**

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

The share–based payment reserve is used to record the value of equity–settled share–based payment and provided to the employees, as part of their remuneration. Note 12 gives further details of these plans.

Investment in treasury shares

The Company has an employee share trust (ESOT) for the granting of group shares to executives and senior employees. The Company acquired 147,219 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 25 February 2008 was £157,156 (22 February 2007: £313,000). The nominal value of each share is 0.2p.

The Company also has an employee benefit trust (EBT) for the granting of group shares under the employee SAYE scheme. The Company acquired 1,000,000 of its own shares via the trust in August 2007. The total amount paid to acquire the shares was £2,370,000. The market value of the shares held by EBT on 25 February 2008 was £1,067,500. The nominal value of each share is 0.2p.

Unrealised gains reserve

This reserve records fair value changes on available–for–sale financial assets.

25. 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, in 2006, made a contribution of a maximum of 5% of pensionable salaries and the cost of death–in–service benefits, where 'old' members of the existing defined contribution scheme, make contributions to the scheme.

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) were 10% of pensionable salaries until the end of July 2007 where members contribute and the cost of the death–in–service benefits. From August 2007 the Group's contributions for these 'new' members of the defined contribution stakeholder scheme reverted to a maximum 5% 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 £1.9m (2006: £1.5m).

There was an outstanding amount of £358,000 in respect of pensions as at 31 December 2007 (2006: £212,000).

26. Acquisitions during the year

Year ended 31 December 2007

During the year the Group acquired the following:

- ICIEA Limited, Intercounty Lettings Limited and ICIEAB Limited (collectively known as 'ICIEA Limited Group')†
- Zenith Properties Limited†
- Martin Stewart partnership†
- Vitalhandy Limited and David Frost Estate Agents Limited (collectively known as 'Vitalhandy Limited Group')†
- JNP Estate Agents Limited, JNP Estate Agents (Princes Risborough) Limited, JNP Residential Lettings Limited (collectively known as 'JNP Estate Agents Group')†
- JNP Surveyors Limited†
- Thornton Hill (Rubery) Limited, Thornton Hill (Redditch) Limited, Thornton Hill (Bromsgrove) Limited and Thornton Hill (Droitwich) Limited (collectively known as 'Thornton Hill companies') ‡

† acquired through LSLi Limited (75% subsidiary)

‡ acquired through your move.co.uk Limited (100% indirect subsidiary)

For acquisitions made by the Group during the year, the date of acquisition and percentage of voting equity instrument acquired are shown as follows:

	Acquisition date	% holding
ICIEA Limited Group	1 Feb	87.5%
Zenith Properties Limited	1 Aug	100%
Martin Stewart partnership	1 Aug	100%
Vitalhandy Limited Group	1 Jul	100%
JNP Estate Agents Group	7 Sep	80%
JNP Surveyors Limited	7 Sep	100%
Thornton Hill companies	2 Nov	100%

For the above acquisition, where 100% interest had not been acquired, the shares held by the minority interest contain a call option (exercisable by the Group) and a put option (exercisable by the minority shareholders). These options are considered to give the Group control over the present access to the benefits of shareholding and hence the business combinations are accounted on the basis that 100% interest has been acquired in the subsidiaries. The estimated amount payable to the minority shareholders under the put and call option is included in the deferred consideration (note 20).

The combined effect of all acquisitions had the following effect on the Group's assets and liabilities:

	Book value £'000	Fair value Adjustments £'000	Fair value £'000
Intangible assets	–	2,846	**2,846**
Property , plant and equipment	400	–	**400**
Trade and other receivables	1,221	–	**1,221**
Cash and cash equivalent	1,590	–	**1,590**
Trade and other payables	(1,388)	–	**(1,388)**
Corporation tax creditor	(834)	–	**(834)**
Deferred tax liabilities	(13)	(797)	**(810)**
	976	**2,049**	**3,025**
Goodwill arising acquisition			**5,239**
			8,264
Discharged by:			
Cash			**5,396**
Loan notes (note 20)			**1,097**
Contingent consideration (note 20)			**1,771**
			8,264

The goodwill of £5,239,000 comprises the value of expected synergies arising from the acquisition.

26. Acquisitions during the year (continued)

The summarised income statement of all acquisitions for the year ended 31 December 2007 is as follows:

	Total £'000
Revenue	**9,823**
Operating profit	**798**
Finance income	**26**
Finance cost	**(3)**
Profit before tax	**821**
Current tax charge	**(262)**
Profit for the year	**559**

The combined revenue of all acquisition from their respective date of acquisitions to 31 December 2007 amounted to £6.0m and the combined profit for that period after tax amounted to £0.6m. If all the entities acquired in 2007 were acquired at the beginning of the year, the combined Group revenue would have been £223.3m and the combined Group profit after tax would have been £16.2m.

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.

In 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.

In 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.

In 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.

In July 2006, the Group acquired a 6.49% shareholding in a subsidiary company, Reeds Rains Limited for £300,000 in cash and the issue of 32,158 shares in the parent company.

In September 2006, the Group acquired the remaining 3.70% 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 equivalent	51	–	**51**
Trade and other payables	(357)	–	**(357)**
Financial liabilities	(655)	–	**(655)**
Corporation tax debtor	12	–	**12**
Deferred tax liability	–	(48)	**(48)**
	(841)	**114**	**(727)**
Goodwill arising acquisition			**727**
Cash			–

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

26. 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 cost	**(40)**
Loss before tax	**(60)**
Taxation	**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	**146**
Finance income	**–**
Finance cost	**–**
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 acquisitions of minority interest	**36,806**
Discharged by:	
Cash	**34,700**
Issue of shares at a premium	**2,106**
	36,806

26. 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 acquisitions	**3,787**
	4,984
Discharged by:	
Issue of shares at a premium	**3,127**
Costs associated with the acquisition	**22**
Cash	**1,835**
	4,984

If all the entities acquired in 2006 were acquired at the beginning of the year, the combined Group revenue would have been £198.5m and the combined Group profit after tax would have been £13.3m.

27. Client monies

As at 31 December 2007, client monies held by subsidiaries in approved bank accounts amounted to £17,886,591 (2006: £11,194,793). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet.

28. Financial instruments – risk management

The Group's principal financial instruments comprise bank loans and other loans. The main purpose of these financial instruments is to raise finance for the Group's operations and to fund acquisitions. The Group has various financial assets and liabilities such as trade receivables, cash and short –term deposits and trade payables, which arise directly from its operations.

The Group enters into derivative transactions, relating to the purchase of interest rate cap products. The purpose is to manage the interest cost arising from the Group's operations and its sources of finance.

It is, and has been through out 2007 and 2006 the Group's policy that trading in derivatives shall not be undertaken, apart from the interest rate cap products mentioned above.

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

- Cash flow interest rate risk
- Liquidity risk, and
- 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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long–term debt obligations with floating interest rates.

It is currently the Group policy that the majority of external Group borrowings are variable interest based. 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 expired 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 had come into effect in September 2007 as the prevailing LIBOR rose above the 6% 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.

At 31 December 2007, approximately 6% of the Group's borrowings are at a fixed rate of interest (2006: 2%).

28. Financial instruments – risk management (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/ decrease in basis point	Effect on profit before tax £'000
2007	**+100**	**(531)**
	–100	**531**
2006	+100	(549)
	–100	549

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations, dividend policy and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (eg accounts receivables, and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions through the use of its banking facilities.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments:

Year ended 31 December 2007

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	64	378	54,094	–	**54,536**
Trade and other payables	–	39,873	15	70	48	**40,006**
	–	**39,937**	**393**	**54,164**	**48**	**94,542**

Year ended 31 December 2006

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	143	8,174	34,708	–	43,025
Trade and other payables	–	36,915	–	–	–	36,915
	–	37,058	8,174	34,708	–	79,940

Capital management

The primary objective of the Group's capital management is to ensure that it maintains appropriate capital structure to support its business objectives and maximise shareholder value.

In the medium to long term, the Group will strive to maintain a reasonable leverage (ie balance between debt and equity) to help achieve the Group's business objectives of growth (through acquisitions and organic growth) and dividend policy. In the short term, the Group does not have a set leverage ratio to be achieved but the directors monitor the ratio of net debt to operating profit to ensure that the debt funding is not excessively high.

The Group has a current ratio of net debt to operating profit of 1.3:1 (2006: 1.1:1), net debt of £48.7m (2006: £34.2m) and operating profit before exceptional costs and amortisation of £36.5m (2006: £32.4m). The business is significantly cash generative with a low capital expenditure requirement. The stated dividend policy of 30% to 40% of net profit is designed to reflect the cash generative nature of business, but at the same time provide flexibility for future acquisitions. The Group will manage its future capital requirement in reference to any further acquisitions by carefully reviewing the net debt to operating profit gearing.

28. Financial instruments – risk management (continued)

Liquidity risk (continued)

	2007 £'000	2006 £'000
Interest bearing loans and borrowings	**50,990**	34,739
Less: cash and short term deposit	**(2,326)**	(578)
Net debt	**48,664**	34,161

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 the estate agency 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 majority of the surveying customers are large financial institutions and as such the credit risk is not expected to be significant. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Interest rate risk profile of financial assets and liabilities

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.

The interest rate profile of the financial assets and liabilities of the Group as at 31 December 2007 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**
Unsecured loans	(136)	(1,033)	(10)	–	–	–	(1,179)
Cash–settled share–based payment	–	–	(69)	–	(34)	–	(103)
Interest rate cap	22	12	–	–	–	–	34

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	2,326	–	–	–	–	–	2,326
Revolving credit facility	(16,948)	(17,000)	(13,501)	–	–	–	(47,449)
Secured loans	(75)	–	–	–	–	–	(75)
Unsecured loans	(191)	(191)	(31)	–	–	–	(413)

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

	Effective rate and actual rate
Revolving credit facility	5.57%
Other unsecured loans	5.30%
Unsecured loan notes	5.00%
Unsecured bank loan	10.00%

28. Financial instruments – risk management (continued)

Interest rate risk profile of financial assets and liabilities (continued)

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)	(169)	(33)	(17)	–	–	(252)
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)	(578)	–	–	–	–	(601)

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%	7.20%
Secured loan notes	11.50%	10.00%
'B' loan notes	4.04%	3.60%
Revolving credit facility	5.71%	5.71%
Unsecured loans	7.03%	7.03%

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:

	2007		2006	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**2,326**	**2,326**	578	578
Financial liabilities				
Interest–bearing loans and borrowings:				
Floating rate borrowings	**(47,937)**	**(47,937)**	(34,016)	(34,016)
Fixed rate borrowings	**(3,053)**	**(3,010)**	(723)	(723)
Interest rate cap	**34**	**34**	79	79

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.

29. Related party transactions

Compensation of key management personnel, all of whom are directors of the Company is given in note 12. The details of transactions between Group companies have not been disclosed as these are eliminated on consolidation.

Consultancy fees and reimbursement of expenses to non–executive directors (net of VAT) during 2007 was £2,418 (2006: £21,773). No amount was outstanding by the Group as at 31 December 2007 (2006: £nil).

There were no other related party transactions with directors in the year ended 31 December 2007.

30. Capital commitments

	2007 £'000	2006 £'000
Capital expenditure contracted for but not provided	**169**	32

31. Post balance sheet event

In December 2007, the Group announced the details of a Buy As You Earn share scheme available to all Group employees, commencing in January 2008. The scheme allows employees to purchase shares in the Group on a monthly basis.

On 20 February 2008, the Group announced its intention to cease trading as a provider of conveyancing services. The results for 2007 and 2006 are shown below:

	2007 £'000	2006 £'000
Revenue	**2,719**	3,132
Operating loss	**(877)**	(648)
Net current liabilities	**(1,390)**	(1,031)
Impairment on property, plant and equipment and goodwill	**(337)**	–

32. Principal subsidiary companies

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

Name of subsidiary company	Holding	Proportion of nominal value of shares held	Nature of business
your–move.co.uk Limited	Ordinary shares	100%	Estate agency and related activities
e.surv Limited *	Ordinary shares	100%	Surveying and valuation services
Homefast Property Lawyers Limited	Ordinary shares	77.5%	Legal conveyancing services
Property careers.com Limited (formerly homeinspectors.co.uk Limited)	Ordinary shares	96%	Training services
First Complete Limited	Ordinary shares	100%	Financial services
Reeds Rains Limited *	Ordinary shares	100%	Estate agency and related activities
Linear Mortgage Network Limited	Ordinary shares	65%	Mortgage services
Linear Financial Services Limited	Ordinary shares	56%	Mortgage services
Chancellors Associates Limited	Ordinary shares	100%	Surveying and valuation services
LSLi Limited*†	Ordinary shares	75%	Holding company
ICIEA Limited†	Ordinary shares	87.5%	Estate agency and related activities
Barnwoods Limited*†	Ordinary shares	95%	Surveying and valuation services
David Frost Estate Agents Limited†	Ordinary 'A' shares Ordinary 'B' shares Non cumulative preference redeemable shares	100%	Estate agency and related activities
JNP Estate Agents Limited†	Ordinary shares Ordinary 'B' shares Ordinary 'C' shares	80%	Estate agency and related activities

* held directly by the Company
† acquired during 2007

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 Auditors' 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 2007 which comprise the Company balance sheet and the related notes 1 to 15. 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 2007.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 Chairman's Statement and 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 Directors' Report, the unaudited part of the Directors' 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 2007;
- 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

27 February 2008

Parent company balance sheet as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible fixed assets	3	**8**	–
Investments	4	**107,992**	105,847
Other debtors	5	**13**	–
		108,013	105,847
Current assets			
Debtors	5	**47,760**	6,514
Creditors: amounts falling due within one year	6	**50,891**	23,573
Net current liabilities		**(3,131)**	(17,059)
Total assets less current liabilities		**104,882**	88,788
Creditors: amounts falling due after one year	7	**63,957**	74,778
Net assets		**40,925**	14,010
Capital and reserves			
Called up share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share–based payment reserve	11	**463**	13
Reserve for own shares	11	**(2,669)**	(298)
Profit and loss account	11	**37,294**	8,458
Equity shareholders' funds		**40,925**	14,010

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 £31,960,000 (2006: £10,404,737).

The financial statements were approved by the Board on 27 February 2008 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, 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 2007. 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.

The Company has taken advantage of the exemption in paragraph of 2D of FRS 29 *Financial Instruments: Disclosures* and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial Instruments: Disclosures*.

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. Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

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.

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings are recognised by the company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in subsidiary undertakings.

1. Accounting policies (continued)

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

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:

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 FRS29 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.

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 profit and loss. 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.

Tangible fixed assets

Tangible fixed asset is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:

Fixture, fittings and computer equipment	–	over 5 years

1. Accounting policies (continued)

Tangible fixed assets (continued)

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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 £31,960,000 (2006: £10,404,737).

3. Tangible fixed assets

As at 31 December 2007

	Fixture, fittings and computer equipment £'000
Cost	
At 1 January 2007	–
Additions	9
At 31 December 2007	**9**
Depreciation	
At 1 January 2007	–
Charge for the year	1
At 31 December 2007	**1**
Carrying amount	
At 31 December 2007	**8**
At 31 December 2006	–

4. Investments in group undertakings

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

	2007 £'000	2006 £'000
At 1 January	**105,847**	1,068
Additions	**2,145**	104,779
At 31 December	**107,992**	105,847

In July 2007, the Company paid £950,000 to subscribe for the entire share capital of Barnwoods Limited.

In August 2007, the Company set up LSLi Limited (a 75% subsidiary) to acquire other estate agency companies. The Company has a 'put and call option' on the remaining 25% of the shares in LSLi Limited. The Company has estimated the payout under the 'call option' to be £754,003 and included the same as a cost of investment. This amount is also included under note 10.

During the year, £441,000 (2006:£11,000) of the share–based payment have been recorded as an increase in the investment in subsidiaries, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings.

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.

4. Investments in group undertakings (continued)

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.

5. Debtors

	2007 £'000	2006 £'000
Current		
Deferred tax asset (note 8)	**14**	48
Corporation tax debtor	**3,642**	1,582
Other debtors	**207**	158
Prepayments	**13**	83
Amounts owed by Group undertakings	**43,884**	4,643
	47,760	6,514
Non–current		
Prepayments	**13**	–

6. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Loans (note 9)	**16,948**	5,346
Accruals	**380**	716
Amounts owed to group undertakings	**33,563**	17,511
	50,891	23,573

7. Creditors: amounts falling due after one year

	2007 £'000	2006 £'000
Loans (note 9)	**63,106**	74,778
Contingent consideration	**754**	–
Accruals	**97**	–
	63,957	74,778

8. Deferred tax asset

	2007 £'000	2006 £'000
Deferred tax liability at 1 January	**48**	–
Deferred tax (charge)/credit in income statement for the year	**(34)**	48
Deferred tax asset at 31 December	**14**	48

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

The UK corporation tax rate will decrease from 30% to 28% from 1 April 2008. The deferred tax balance has been adjusted in the current year to reflect this change.

9. Loans

	2007 £'000	2006 £'000
Amounts falling due		
In one year or less	**16,948**	5,346
In more than one year but not more than two years	**63,106**	74,778
	80,054	80,124

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.

A loan of £nil (2006: £0.5m) is also guaranteed by the Company's bankers, Barclays Bank plc.

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

Secured bank loans – Revolving credit facility

The secured bank loans totalling £47.4m (2006: £33.4m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions Limited, First Complete Limited and its subsidiaries, property–careers.com Limited, Chancellors Associates Limited and LSLi Limited and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £95m facility. The banking facility expires in July 2009 but can be extended at that date until July 2011.

Interest payable on the revolving credit facility amounted to £2.9m (2006 £1.2m). The interest rate applicable to the facility is LIBOR plus a margin rate of 0.65%. The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

10. Called up share capital

	2007 Shares	**£'000**	2006 Shares	£'000
Authorised				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1 January	**104,158,950**	**208**	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**	104,158,950	208

At 1 January 2005, the issued and fully paid share capital of £1,000,000 was made up of 1,000,000 'A' ordinary shares.

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.

In 2006, the 1,000,000 'B' ordinary shares, which were classified as debt in 2005 had been reclassified as share capital as they were converted into ordinary shares prior to listing and were not entitled to any further cumulative dividend.

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

11. 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 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 treasury 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–based payments	–	–	450	–	–	450
Purchase of treasury shares	–	–	–	(2,371)	–	(2,371)
Dividend paid	–	–	–	–	(3,124)	(3,124)
Profit for the year	–	–	–	–	31,960	31,960
Balance at 31 December 2007	**208**	**5,629**	**463**	**(2,669)**	**37,294**	**40,925**

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. The Company operates a Long Term Incentive Plan and Save As You Earn scheme for the employees in the Company and the Group. See note 12 of the Group financial statements for detail of the Long Term Incentive Plan and Save–As–You Earn scheme.

12. 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) were 10% of pensionable salaries until the end of July 2007 where members contribute and the cost of the death–in–service benefits. From August 2007 the Company's contributions for these 'new' members of the defined contribution stakeholder scheme reverted to 5% 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 £56,038 (2006: £24,591).

There were no outstanding amounts in respect of pensions as at 31 December 2007 (2006: £nil).

13. Related party transactions

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.

14. Capital commitments

The Company had no capital commitments as at 31 December 2007 (2006: none).

15. Post balance sheet event

Please refer to note 31 of the Group financial statements.

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 year end.

“AGM”
Annual General Meeting

“Barnwoods”
Barnwoods Limited

“Chancellors Associates”
Chancellors Associates Limited

“Combined Code”
Combined Code on Corporate Governance published by the Financial Reporting Council in 2006

“EPC”
Energy performance certificate

“e.surv”
e.surv Limited

“First Complete”
First Complete Limited

“Frosts”
David Frost Estate Agents Limited

“HIPs”
Home Information Packs

“Homefast”
Homefast Property Lawyers Ltd

“Intercounty”
ICIEA Limited

“IFRS”
International Financial Reporting Standards

“JNP”
JNP Estate Agents Limited

“Linear”
Linear Mortgage Network and Linear Financial Services

“Linear Financial Services”
Linear Financial Services Limited

“Linear Mortgage Network”
Linear Mortgage Network Limited

“LSLi”
LSLi Limited and its subsidiaries JNP, Intercounty and Frosts.

“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

“property-careers.com”
Property-careers.com Limited

“Reeds Rains”
Reeds Rains Limited

“Underlying Operating Profit/Loss”
is before exceptional costs and amortisation

“Your Move”
your-move co uk Limited

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