**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to consult your stockbroker, bank manager, solicitor, accountant, fund manager or other professional adviser authorised under the Financial Services and Markets Act 2000 (''FSMA''), if you are resident in the UK or, if not, from another appropriately authorised professional.**

**Please see Part II of this document, entitled ''Risk Factors'', for a discussion of certain risk factors which should be taken into account when considering what action you should take in connection with the General Meeting.**

If you sell or have sold or otherwise transferred all of your Ordinary Shares before the close of business on 4th November 2011, you should send this document together with the accompanying Form of Proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee.

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LSL Property Services plc

# LSL Property Services plc

*(incorporated and registered in England and Wales with registered number 05114014)*

**Proposed acquisition of Marsh & Parsons Limited**
**and Notice of General Meeting**

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**You should read the whole of this document carefully. Your attention is drawn, in particular, to the letter from the Chairman of LSL which is set out in Part I of this document and which recommends that you vote in favour of the Resolutions to be proposed at the General Meeting referred to below.**

The Notice of the General Meeting, to be held at LSL's offices, 1 Sun Street, London EC2A 2EP at 10am on 22nd November 2011, is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the General Meeting. Shareholders are requested to complete and return the Form of Proxy whether or not they intend to be present at the General Meeting. To be valid, Forms of Proxy should be completed and signed in accordance with the instructions printed thereon and returned by post or by hand so as to reach Capita Registrars, 34 Beckham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, not later than 10am on 18th November 2011. The completion and return of a Form of Proxy will not preclude a Shareholder from attending and voting at the General Meeting.

Ernst & Young LLP is acting as sponsor exclusively for LSL in connection with the Transaction and no-one else and, save for its responsibilities under the FSMA, will not be responsible to anyone other than LSL for providing the protections afforded to clients of Ernst & Young LLP for providing advice in relation to the Transaction or any other matters referred to in this document.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| *Event* | *Time/date* |
|---|---|
| **Latest time and date for receipt of Forms of Proxy for use at the General Meeting** | **10 a.m. on 18th November 2011** |
| **General Meeting** | **10 a.m. on 22nd November 2011** |

General notes:

1. Reference to times in this document are to London time unless otherwise stated.
2. The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by LSL, in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, Shareholders.
3. Different deadlines and procedures for return of Forms of Proxy may apply in certain cases.

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

| | |
|---|---|
| **Directors** | Steve Cooke (Group FD)<br>Simon Embley (Group CEO)<br>Paul Latham (NED)<br>Roger Matthews (Chairman)<br>Mark Morris (Senior NED)<br>David Newnes (Executive Director – Estate Agency)<br>Mark Pain (NED)<br>Alison Traversoni (Executive Director – Surveying) |
| **Company Secretary** | Sapna Bedi FitzGerald |
| **Registered Office** | Newcastle House<br>Albany Court<br>Newcastle Business Park<br>Newcastle Upon Tyne<br>NE4 7YB |
| **Sponsor** | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF |
| **Auditors and Reporting Accountants** | Ernst & Young LLP<br>1 Bridgewater Place<br>Water Lane<br>Leeds<br>LS11 5QR |
| **Legal Adviser to LSL** | DLA Piper UK LLP<br>Princes Exchange<br>Princes Square<br>Leeds<br>LS1 4BY |
| **Registrar** | Capita Registrars<br>Northern House<br>Woodhouse Park<br>Fenay Bridge<br>Huddersfield<br>HD8 0LA |
| **Media Advisers** | Buchanan Communications<br>107 Cheapside<br>London<br>EC2V 6DN |
| **Joint Brokers** | Numis Securities Limited<br>The London Stock Exchange Building<br>10 Paternoster Square<br>London<br>EC4M 7LT<br><br>RBS Hoare Govett<br>250 Bishopsgate<br>London<br>EC2M 4AA |

## PART I

## LETTER FROM THE CHAIRMAN OF LSL PROPERTY SERVICES PLC

(Incorporated and registered in England and Wales with registered number: 05114014)

LSL Property Services plc

Registered office:
Newcastle House
Albany Court
Newcastle Business Park
Newcastle upon Tyne
NE4 7YB

4th November 2011

To Shareholders.

**PROPOSED ACQUISITION OF MARSH & PARSONS LIMITED**

Dear Shareholder

### 1. Introduction

On 4th November 2011, the board of LSL announced that they had reached agreement on the terms of the proposed acquisition of the entire issued share capital of Marsh & Parsons by Newco, a wholly owned subsidiary of LSL.

Marsh & Parsons is a leading London estate agency operating a premium brand in the mid-segment of the prime London property market where sale volumes have been robust and commission rates consistently strong in comparison with other parts of the UK. Marsh & Parsons is headed by a highly experienced and successful team which operates out of 13 offices in Central and South-West London, including five offices in the Royal Borough of Kensington and Chelsea. In the year ended 31st December 2010, Marsh & Parsons reported sales of £23.3m and a profit before tax of £6.3m. Net assets as at 31st December 2010 were £6.8m.

Marsh & Parsons is currently a subsidiary of Sherry FitzGerald which owns 72% of the issued share capital, with the remaining 28% being owned by the Marsh & Parsons Management Shareholders. The Marsh & Parsons Management Shareholders will remain with the business and, as part of their commitment, are reinvesting 50% of the net consideration they receive (£6.5m) into Newco. The enterprise value of the Acquisition is £50.0m. After accounting for cash and excess working capital of approximately £3.1m, Newco will pay the Marsh & Parsons Shareholders a total consideration of £53.1m, to be satisfied by £45.1m in cash, £7.6m in loan notes and £0.4m in Growth Shares for the entire issued share capital of Marsh & Parsons. Marsh & Parsons Management Shareholders will be incentivised to grow the profitability of the business through the allocation of the £0.4m of Growth Shares which can be sold to LSL at any time between 31st March 2016 and 1st April 2020. The amount to be paid by LSL to Marsh & Parsons Management Shareholders in relation to Growth Shares is subject to the growth in future profitability of Marsh & Parsons and is therefore unknown. Further details of the Acquisition Agreement and Investment Agreement are set out in Part III of this Circular.

LSL has a strong balance sheet with net debt of £6.2m at 30th June 2011. The Transaction is being funded using an existing bank facility with Barclays Bank plc and Lloyds Banking Group. The Transaction is expected to significantly enhance adjusted earnings per share for Shareholders in 2012.

The Transaction is a Class 1 transaction for LSL for the purposes of the Listing Rules and is therefore conditional upon the approval of Shareholders. The reason that the Transaction is a Class 1 transaction is that the amount payable to Marsh & Parsons Management Shareholders for their Growth Shares by LSL depends on future profitability and is uncapped, therefore triggering the consideration test as set out in the Listing Rules. The other class tests, as set out in the Listing Rules, do not trigger Class 1 status. Approval of the Shareholders is being sought at a General Meeting of LSL to be held on 22nd November 2011 at 10am at the offices of LSL, 1 Sun Street, London, EC2A 2EP for the purpose of approving the entry into the Acquisition Agreement and the Investment Agreement, and establishing the 2011 EBT.

The establishment of the 2011 EBT is conditional upon the Shareholders approving the entry into of the Acquisition Agreement and the Investment Agreement and is also subject to the approval of the Shareholders at the General Meeting. The Notice of General Meeting is set out on page 51 of this Circular, which is being sent to Shareholders in connection with the Transaction and the convening of the General Meeting. This Circular is being posted to those Shareholders who have requested paper copies of all communications with LSL. All other Shareholders will be able to access the Circular via LSL's website: www.lslps.co.uk.

The purpose of this Circular is to provide Shareholders with details of and background to the Transaction, to explain why the Board consider it to be in the best interest of Shareholders as a whole, and to recommend that Shareholders vote in favour of the Resolutions at the General Meeting.

Certain major shareholders of LSL, the Directors and certain management shareholders of LSL, representing 53,206,680 of the Ordinary Shares in aggregate, and 50.97% of the issued share capital of LSL, have given irrevocable undertakings to vote in favour of the Resolutions. Further details in relation to these irrevocable undertakings is set out in paragraph 5 of this Part I.

**Shareholders should read the whole of this Circular and not solely rely on the summarised information in this letter.**

## 2. Background to and reasons for the Transaction

The Directors believe that the Transaction has a compelling strategic and financial rationale, with significant benefits for Shareholders.

The Directors believe that in recent years LSL has delivered excellent growth and achieved market leadership in both its surveying and asset management businesses against the backdrop of a very challenging housing market. Through a number of small acquisitions it has also built a strong position in financial services. In estate agency, the acquisition and subsequent successful integration of Halifax Estate Agencies Limited provided the LSL Group with a step change in its market position. The Estate Agency Division has also invested in its people and created a new call centre to grow market share with encouraging results to date.

Throughout this period, LSL has acquired a number of businesses and demonstrated a track record of successful integration, retention of key management and delivering results in line with expectations.

The London estate agency market has historically proven to demonstrate more robust features through the property cycle. The Acquisition provides LSL the opportunity to significantly increase its exposure in this key geographical location, and provides a vehicle to capitalise on further expansion opportunities in London and, in the medium term, to benefit from the market recovery.

The Directors intend that, post Completion, Marsh & Parsons continues to operate independently as a separate business and brand within the LSL Group, which already operates a number of estate agency brands and businesses.

The key benefits which flow from the Transaction are as follows:

a. The Transaction provides LSL with a presence in the mid-segment of the prime London estate agency market. Marsh & Parsons is geographically complementary to LSL's existing estate agency footprint and provides the wider LSL Group with greater coverage of the UK property market.

b. The London property market has historically shown more robust characteristics than the wider UK property market, though transaction levels are still circa 40% lower than peak levels in 2007. The higher proportion of cash sales and greater participation of foreign buyers provide the London property market with higher levels of growth during stronger economic periods but also more resilience against restricted mortgage availability and general economic weakness. More generally, limited housing supply and strong demand for properties from both domestic and foreign buyers contribute to the inherent attractiveness of the London market.

c. The Marsh & Parsons business model is to drive revenue across both residential sales and lettings in order to reduce exposure to the natural cyclicality of the property market. This has been achieved and revenue in 2010 was broadly evenly split between residential sales and lettings.

d. Marsh & Parsons represents a trusted premium brand, established for over 150 years, which enjoys excellent customer satisfaction levels, enabling Marsh & Parsons to increase its market share by 66% since 2005, including the period of the recent market downturn.

e. The Directors believe LSL will gain a high quality, dynamic and experienced management team with an outstanding record of delivering strong and profitable growth against the backdrop of challenging market conditions. The team is led by Chief Executive Peter Rollings, who has over 25 years experience of successfully growing estate agency businesses in the London market with both Foxtons and Marsh & Parsons, and Liza-Jane Kelly, who has over 18 years in the property market including experience with Sherry FitzGerald, Hamptons International and Marsh & Parsons. The Marsh & Parsons Management Shareholders remain committed to and will be reinvesting in the business.

f. The Marsh & Parsons Management Shareholders have exciting growth plans for the business which builds on their recent track record of doubling their number of offices. The next stage of the business plan includes increasing market share across the existing portfolio and further roll out of new offices across prime areas of London together with further bolt on acquisition opportunities. While Marsh & Parsons will operate independently within the LSL Group, there will be opportunities for synergies. LSL has a strong track record of encouraging its separately branded estate agency businesses to share best practice and, in particular, there may be opportunities for Marsh & Parsons to further develop certain revenue streams. In addition, it is possible that some existing LSL estate agency branches in London could be rebranded Marsh & Parsons.

g. In a challenging London market, Marsh & Parsons has demonstrated an excellent track record of delivery since 2005 through its investment in people, market, business model and brand. During this period, its market share has increased by 66%, revenue has increased by 53% per annum (compound annual average growth rate) and the operating result has improved from a loss of £0.6m in 2005 to a profit before tax of £6.3m in 2010. The business has also delivered excellent cash conversion during this time with high margins and relatively low levels of capital expenditure.

### 3. Information on Marsh & Parsons

Headquartered in Hammersmith, Marsh & Parsons is a leading premium brand London estate agency operating exclusively in the prime London housing market of Central and South West London from its thirteen offices. It was originally established in 1856 when its founder, William T Marsh, established an estate agency on Kensington High Street.

From its inception, the firm has established itself as one of the leading residential estate agents in Central London and it is one of the longest established estate agents in the Royal Borough of Chelsea and Kensington. Marsh & Parsons' thirteen offices are based in Balham, Barnes, Battersea, Brook Green, Chelsea, Clapham, Fulham, Holland Park, Kensington, Little Venice, North Kensington, Notting Hill and Pimlico. There is also a virtual office in Mayfair.

The customer offering is predominantly residential sales and lettings services, but it also includes corporate relocation services, property management, residential development, advisory services and professional valuation services.

In June 2005, Marsh & Parsons was acquired by Sherry FitzGerald (Ireland's largest estate agency group) under the leadership of Peter Rollings (previously the Managing Director of Foxtons) and Liza-Jane Kelly. Since then, Marsh & Parsons has grown rapidly (turnover has increased from £10.4m in 2006 to £23.3m in 2010) following the opening of new offices and the acquisition and rebranding of Vanstons in 2007.

In 2010, Marsh & Parsons won the Sunday Times ''Best Medium Sized London Agency'' award, as well as the ''Best Medium Sized UK Agency'' award and the ''Best Overall UK Estate Agency'' award. It holds memberships of both the Association of Residential Lettings Agents (ARLA) and The Property Ombudsman (TPO).

Marsh & Parsons had 199 full time equivalent employees as at 30th June 2011 and the following is a summary of the profit and loss statement for Marsh & Parsons for the three years ended 31st December 2010:

| | *2008* | *2009* | *2010* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| **Revenue** | **13,613** | **16,998** | **23,337** |
| **Operating (loss)/profit** | **(459)** | **3,622** | **6,302** |
| Net finance income /(expense) | (246) | (80) | (47) |
| **(Loss)/Profit before tax** | **(705)** | **3,542** | **6,255** |

Gross assets of Marsh & Parsons as at 31st December 2010 were £14.0m.

### 4. Principal terms and conditions of the Transaction

Marsh & Parsons is currently a subsidiary of Sherry FitzGerald which owns 72% of the entire issued share capital, with the remaining 28% of the issued share capital being owned by the Marsh & Parsons Management Shareholders. The enterprise value of the Acquisition is £50.0m. After accounting for cash and excess working capital of approximately £3.1m, Newco will pay the Marsh & Parsons Shareholders a total consideration of £53.1m, to be satisfied by £45.1m in cash, £7.6m in loan notes and £0.4m in Growth Shares for the entire issued share capital of Marsh & Parsons.

Newco is a newly incorporated company in which, immediately following Completion, LSL will have all of the Economic Value and the majority of the voting rights. Part III of this Circular provides further details of the capital structure of Newco on Completion.

Pursuant to the terms of the Acquisition Agreement, at Completion, the Marsh & Parsons Management Shareholders, who currently own 28% of Marsh & Parsons, which at the Transaction price is valued at £14.9m, will be paid £6.9m in cash, with the remainder of their consideration (being £8.0m) to be satisfied by Newco by the issue of £7.6m in Loan Notes and £0.4m in Growth Shares.

Further details of the Acquisition Agreement are set out in Part III of this Circular.

The management of Marsh & Parsons is extremely important to the business and therefore the Marsh & Parsons Management Shareholders will enter into the Investment Agreement, together with LSL, on Completion in relation to Newco. The Investment Agreement is conditional upon, *inter alia*, the execution of the Acquisition Agreement and upon such agreement becoming unconditional in all respects subject only to the payment of the Completion Consideration.

The Investment Agreement regulates the relationship between the Marsh & Parsons Management Shareholders and LSL as shareholders of Newco. It contains, *inter alia,* restrictive covenants and compliance covenants to be given by the Marsh & Parsons Management Shareholders relating to the conduct of the business of Newco, Marsh & Parsons and its subsidiaries. Further details of the Investment Agreement are set out in Part III of this Circular.

The entry into of both the Acquisition Agreement and the Investment Agreement is conditional upon, *inter alia*, the approval of the Shareholders at the General Meeting.

It is proposed that in addition to entering into the Transaction, LSL establish the 2011 EBT, an employee benefit trust whose beneficiaries shall be all the employees of the Enlarged Group. It is intended that, in due course, members of the current and future management team of Marsh & Parsons will also be invited to apply for Growth Shares which will be held by the 2011 EBT, as part of a package of measures designed to incentivise all of the current and future management of Marsh & Parsons. Shareholder approval is sought for the establishment of the 2011 EBT. The establishment of the 2011 EBT is subject to the approval of the Shareholders at the General Meeting and conditional upon the Shareholders approving the entry into of both the Acquisition Agreement and Investment Agreement.

Holders of Growth Shares will have the option to require LSL to buy their Growth Shares at any time between 31st March 2016 and 1st April 2020, at their discretion, at a price determined by a multiple of EBITDA in the previous financial year. As the price payable depends on future profitability and certain preference criteria, the amount payable is unknown. Details of the purchase mechanism are provided in Part III of this Circular.

As stated above, as part of the Completion Consideration for the Marsh & Parsons shares which will be acquired by Newco at Completion, Newco will issue two classes of loan note to the Marsh & Parsons Management Shareholders being (i) the Loan Notes; and (ii) the LJK Loan Notes. While not forming part of consideration, Newco will issue Norland Square Loan Notes in the event that Marsh & Parsons recovers payment from a third party is respect of a claim relating to a property at Norland Square, further details of which are set out in paragraph B (iii) of Part III of this Circular.

The Loan Notes will be issued for an aggregate nominal value of £6.1m. These Loan Notes will accrue interest at 12% per annum on a rolled-up basis and the Loan Notes held by Marsh & Parsons Management Shareholders will be purchased (for an amount equal to their face value plus accrued and unpaid interest) by LSL at the same time as it purchases the Growth Shares from the Marsh & Parsons Management Shareholders.

In addition to the Loan Notes, one of the Marsh & Parsons Management Shareholders will be issued with an aggregate of £1.5m worth of LJK Loan Notes in partial satisfaction of the consideration for her Marsh & Parsons shares.

The Loan Notes, LJK Loan Notes and Norland Square Loan Notes are summarised in Part III of this Circular.

## 5. Irrevocable undertakings

Certain major shareholders of LSL, the Directors and certain management shareholders of LSL, representing 53,206,680 Ordinary Shares in aggregate, and 50.97% of the issued share capital of LSL, have given irrevocable undertakings to vote in favour of the Resolutions.

Of the 50.97% of committed shares referred to above, 13.67% are held by Harris Associates L.P. ("**Harris**") and 7.01% are held by Kames Capital plc and Kames Capital Management Limited ("**Kames**"). Each of Kames and Harris act as manager in relation to shares held by certain of their clients and each has a voting right in relation to such shares but neither Harris nor Kames are the beneficial nor legal owner of such shares. The irrevocable undertaking to vote in favour of the

Resolutions provided by Harris is given in respect of 14,336,077 Ordinary Shares held by Harris, as manager, as at the date the irrevocable was entered into, and the irrevocable undertaking to vote in favour of the Resolutions provided by Kames is given in respect of 7,304,892 Ordinary Shares held by Kames, as manager, as at the date the irrevocable was entered into however, the actual number of shares in respect of which Harris and/or Kames may vote on the date of the General Meeting may be greater or less, as the clients of Harris and Kames are free to revoke the voting right and/or sell their Ordinary Shares (or buy further Ordinary Shares) at any time.

## 6. Financial effects of the transaction

Current volumes in the UK housing market are at less than 50% of historical norms and the Directors have assumed that conditions are unlikely to improve significantly for the forseeable future. Based on Bank of England mortgage approvals for house purchase data it is expected that transaction volumes will be just below 550,000 for 2011 compared to normalised levels of 1.2m per annum. The Directors retain a cautious view beyond 2011 given the continued shortage of available mortgage finance and the general economic uncertainty, particularly in the finance sector.

Based upon these market assumptions, the Directors believe that the Transaction will be earnings enhancing in 2012, the first full year under which Marsh & Parsons will be owned by LSL.

The net cash consideration for the Transaction of £45.1m will be funded by using LSL's existing bank facility of £75m. The Directors believe that following Completion LSL will remain conservatively leveraged and that the LSL Group will retain financial headroom and flexibility to enable it to take advantage of further organic initiatives or acquisition opportunities in line with its stated strategy.

## 7. Management and employees

LSL has high regard for the quality of the management and employees of Marsh & Parsons. Following the Transaction, LSL will operate the Marsh & Parsons brand independently within the LSL Group and LSL will have representation on the Marsh & Parsons board. On Completion the LSL Group Chief Executive, the LSL Group Finance Director and the LSL Group's Executive Director responsible for the Estate Agency Division will join the board of Marsh & Parsons and Eileen Schroeder, Keith Gorny, Emilie Thysse and Patrick Littlemore will resign from the board of Marsh & Parsons.

The focus and commitment of the Marsh & Parsons Management Shareholders has been pivotal to its success and the same team is incentivised to remain with Marsh & Parsons following Completion to deliver its growth strategy. The Marsh & Parsons Management Shareholders and other members of its management team will be heavily incentivised to continue to grow the business and the Transaction includes provisions to retain Marsh & Parsons Management Shareholders who will become shareholders of Newco and party to the Investment Agreement. Further details of the Acquisition Agreement and Investment Agreement are set out in Part III of this Circular.

There will be no changes to the Board or senior management team of LSL as a result of this Transaction.

## 8. Current trading, trends and prospects

### a) LSL

LSL on 4th November released its interim management statement for the period commencing 1st July 2011. The material sections of that interim management statement are set out in full below:

"Since 1 July 2011, the housing market has improved slightly with House Purchase Mortgage Approvals for quarter three up 8% compared to the same period in 2010[(1)]. However, for the 9 months from January to September, House Purchase Mortgage Approvals are flat year on year. Market data is not yet available for October.

Against this backdrop, LSL's trading has been satisfactory for the 4 months ended 31 October but has been more challenging during October. Turnover for the 9 months ended 30 September 2011 compared with the same period in 2010 and also for the 10 months ended 31 October 2011 was as follows:

| | **To 30 September** | **To 31 October** |
|---|---|---|
| Group | +3% | +2% |
| Estate Agency | +9% | +8% |
| Surveying | -7% | -7% |

Cash generation remains strong and net debt at 31 October 2011 was £9.4m (as at 31 October 2010 £13.7m). LSL remains on track to be in a net cash position at the year end before the impact of the Marsh and Parsons acquisition announced today.

*(1) Source: Bank of England*

*Estate Agency*

Estate Agency has continued to make good progress with benefits flowing from the investments made in branch management and 'The Bridge' call centre. Estate Agency pipelines at 31 October 2011 were 9% higher than on 31 October 2010. The Estate Agency branches are also building on the momentum generated earlier in the year with further strong increases in lettings and financial services income. In addition, a number of small lettings businesses have been acquired during 2011 as the business continues to diversify revenue streams.

The Asset Management business is performing well in an environment where repossession volumes are lower than in 2010.

*Surveying Division*

Surveying has traded well despite low levels of mortgage activity requiring physical survey valuations. As expected, performance against key lender client prior year comparatives has improved in quarter three with Surveying income 7% lower for the 10 months to 31 October compared to 9% lower for the 6 months to 30 June as reported in the interim results.

Surveying services for private buyers are continuing to build in line with our expectations.

*Outlook*

Market conditions are challenging and uncertain and LSL has an increasingly cautious view of 2012. The current housing market continues to be impacted by the continued shortage of available mortgage finance, the general economic uncertainty and the increasing pressure on household budgets and consumer confidence.

Against this difficult backdrop, LSL will continue to focus on growing market share and profitability in Estate Agency, developing surveying services for private buyers and capitalising on the growth opportunities arising from the Marsh and Parsons acquisition. The Group is well positioned to increase shareholder value through delivery of these initiatives.''

**b) Marsh & Parsons**

For the nine months ended 30$^{th}$ September 2011, Marsh & Parsons delivered unaudited revenue of £20.2m (nine months ended 30$^{th}$ September 2010: £17.6m) and EBITDA of £6.1m (nine months ended 30$^{th}$ September 2010: £5.3m), representing an EBITDA margin of 30.1% (2010: 30.1%). Revenue in both the sales and lettings divisions are higher than that achieved in the first nine months of 2010.

**9. General Meeting**

Completion of the Transaction is subject to Shareholder approval being obtained at the General Meeting, to be held at LSL's offices at 1 Sun Street, London, EC2A 2EP at 10 am on 22$^{nd}$ November 2011, at which the Resolutions will be proposed. The Notice of General Meeting is set out at the end of this Circular. Shareholders are requested to complete and return the Form of Proxy whether or not they intend to be present at the General Meeting. To be valid, Forms of Proxy should be completed and signed in accordance with the instructions printed thereon and returned by post or by hand so as to reach Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and, in any event, not later than 10am on 18$^{th}$ November 2011. The completion and return of a Form of Proxy will not preclude a Shareholder from attending and voting at the General Meeting.

**10. Recommendation & Action to be taken**

The Board consider the Transaction and the establishment of the 2011 EBT to be in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolutions. The Directors, who together own in aggregate approximately 19.4% of the issued share capital of LSL, have irrevocably undertaken to vote in favour of the Resolutions.

Yours faithfully

**Roger Matthews**
**Chairman**

## PART II

## RISK FACTORS

*Prior to making any decision to vote in favour of the proposed Resolutions at the General Meeting, Shareholders should carefully consider, together with all other information contained in this document, the specific factors and risks described below. The Directors consider the following to be the material risk factors to which the Group is exposed as a result of the Transaction. The risks described below do not necessarily comprise all of those associated with LSL and/or Marsh & Parsons and are not set out in any particular order of priority. There may be other risks of which the Board is not aware or which it believes to be immaterial which may have an adverse effect on the business, financial condition, results or future prospects of the Enlarged Group after the Transaction.*

### 1. Risks Relating to the Completion of the Transaction

#### 1.1 Failure to complete the Transaction

Completion of the Transaction remains subject to Shareholders' approval at the General Meeting. If Shareholders do not approve the Transaction, it will not complete. If the Transaction does not complete, LSL would nonetheless be obliged to pay approximately £600,000 of costs. £100,000 of this relates to a break fee payable to Marsh & Parsons Shareholders with the balance primarily relating to LSL's diligence costs and advisory fees incurred in connection with the Transaction. Failure to complete the Transaction may materially adversely affect the trading price of the Ordinary Shares.

#### 1.2 Adverse change in the financial condition of Marsh & Parsons prior to Completion and potential lack of redress under the Acquisition Agreement

Completion is expected to occur on 22$^{nd}$ November 2011. Until Completion, LSL will not own Marsh & Parsons and it is possible that there could be a material adverse event affecting Marsh & Parsons which would not give rise to a right for LSL to terminate the Acquisition Agreement. This could have an adverse effect on the business, financial condition and operating results of the Enlarged Group.

The Acquisition Agreement includes indemnities and warranties which are customary for a transaction such as this. Disclosures have been made by the Marsh & Parsons Shareholders reflecting all material issues that may impact on the performance or activities of Marsh & Parsons. Specific indemnities have been included in the Acquisition Agreement to cover certain liabilities including tax, redundancy, financial services. However, some of these indemnities and warranties are capped and cover only those areas which the parties have agreed may result in a financial exposure. Any exposure outside these caps on indemnities or warranties is likely to result in an exposure for LSL. The aggregate liability of Marsh & Parsons Shareholders will not exceed 60% of the consideration payable under the Acquisition Agreement.

### 2. Risks relating to the LSL Group from the Transaction

The following risks are risks which relate to the LSL Group as a direct result of the Transaction.

#### 2.1 London market risk

The Transaction increases the size of LSL's estate agency footprint and provides LSL with exposure to the London property market where LSL has not previously operated. While historically the London market has been more robust compared to the rest of the UK, there is a risk that the London market fails to grow in line with assumptions or that LSL fails to maximise the potential for growth. The risk factors which could affect the growth of the London market are:

2.1.1 **Increased general economic uncertainty.** There has been a recent increase in economic uncertainty triggered by global concerns, especially in Europe and relating to the financial sector. This could impact lender behaviour in both the wider UK property market and the London property market and have a consequential impact on mortgage availability. It could also result in an adverse impact on consumer confidence which would further reduce housing transaction volumes in London.

2.1.2 **Currency risk.** The risk that adverse exchange rate movements could provide a disincentive to foreign buyers who are an important source of demand in the London market.

2.1.3 **Civil unrest.** The recent civil unrest in London may impact on the brand of London and how it is perceived by foreign investors, resulting in a downturn in the performance of the London market.

2.1.4 **Terrorism.** London remains at a high risk of terrorist attack, especially with the forthcoming 2012 London Olympics. Any such attack could cause both short term disruption to the London market and longer term damage if it were to persuade property buyers to purchase outside London.

2.1.5 **Adverse impact on London as a financial centre.** Any material reduction in employment levels in London's financial services sector would directly impact the London property market. This could be caused by a combination of broader general economic uncertainty resulting in a particular impact on London based financial institutions with adverse policy decisions (for example relating to tax and regulatory matters), which could put London at a competitive disadvantage compared to other global financial centres.

However, London market transaction volumes are around 40% lower than the previous peak in 2007, so LSL is buying into the London market at a historically low point in the cycle.

### 2.2 Dependency on key personnel

There is risk relating to the continued service of the management team of Marsh & Parsons following Completion. The team, in particular Peter Rollings and Liza-Jane Kelly, have particular skills and knowledge relating to the prime London property market. However, this risk is partly mitigated by the ongoing incentivisation of the Marsh & Parsons team. The Marsh & Parsons Management Shareholders are reinvesting 50% of their net consideration in the business. In addition, they and other members of the management team of Marsh & Parsons will participate in a performance related incentive scheme linked to growing the profitability of the Marsh & Parsons business.

### 2.3 Failure to effectively deliver and manage business expansion

There is no specific integration risk arising from the Acquisition as Marsh & Parsons will be run as a standalone business within the LSL Group but there is a risk of failure to effectively deliver and manage the expansion of Marsh & Parsons. However, in the event that the Marsh & Parsons management team do not deliver the planned levels of growth, the team will not receive the performance related element for their Growth Shares.

### 2.4 Reputation

The reputation of the LSL Group could be adversely affected by the actions of one or a limited number of its employees or franchisees or negative comment from third parties. The acquisition of Marsh & Parsons exposes the LSL Group to a specific set of potential reputational risks associated with operating in the London property market. These risks are broadly the same as those faced in relation to the operation of LSL's other estate agency businesses but in London they are set in the context of a business operating in the mid range of one of the world's highest profile property markets.

The LSL Group and Marsh & Parsons have systems in place which seek to prevent any individual employee or contractor from being negligent or fraudulent, to prevent financial services products being mis-sold and to detect any problems in service delivery at an early stage. There is no guarantee that such systems will work in all cases, that service delivery problems will not occur or that negative comments will not be made.

### 2.5 Failure of information systems

Marsh & Parsons ability to provide a high-quality service to its clients depends, in part, on the efficient and uninterrupted operation of its management information systems. These systems are vulnerable to damage or temporary interruption from flood, fire, power loss, telecommunications failure and similar events. These systems may also be subject to sabotage, vandalism and similar misconduct. Although Marsh & Parsons has disaster recovery procedures in place, any damage to, or failure of, any of these systems could result in temporary interruptions to customer service and associated loss of revenue.

### 2.6 Competition

Marsh & Parsons competes with a number of residential property service providers in the London property market. Marsh & Parsons faces competition from traditional Central London estate agencies, international agencies, the growing number of internet-based property services companies and private sales. There are low barriers to entry for new competitors to the estate agency business, especially for those who deliver services over the internet and where regulated financial products are not part of the competitor's services.

Whilst Marsh & Parsons has competed effectively in this environment historically, it may not continue to compete effectively or be able to maintain current fee arrangements on its core services.

## PART III

## SUMMARY OF PRINCIPAL TERMS AND CONDITIONS OF THE ACQUISITION

### A. Overview of the proposed Transaction

For an overview of the Transaction please refer to paragraph 4 of the Chairman's letter in Part I of this Circular.

### B. Summary of the key terms of the Acquisition Agreement

Under the terms of the Acquisition Agreement, Newco (a wholly owned subsidiary of LSL) will pay the Marsh & Parsons Shareholders £50.0m for the entire issued share capital of Marsh & Parsons on a debt free basis. Newco is a newly incorporated company, in which, immediately following Completion, LSL will have all of the economic value and the majority of the voting rights.

The consideration payable pursuant to the Acquisition consists of:

(i) "initial consideration" of £51,669,000;

(ii) "per diem consideration", which is linked to the "locked box mechanism" (further details of which are summarised below) and which is calculated based on the number of days that have elapsed since 1st August 2011 to the date of Completion (the "initial consideration" and "per diem consideration" together being the "**Completion Consideration**"); and

(iii) "deferred claim consideration", which shall become payable to the Marsh & Parsons Shareholders, in the event that Marsh & Parsons recovers payment from a third party in respect of a claim relating to Norland Square (being a claim made by Marsh & Parsons in relation to the renewal of a lease at 57 Norland Square). In such circumstances, Newco shall pay an amount equal to any such payment received (less costs, expenses or tax actually suffered thereon in recovering or obtaining such payment) in cash to all Marsh & Parsons Shareholders, save in respect of Liza-Jane Kelly and Peter Rollings, whose proportion of the deferred claim consideration shall be satisfied by the issue of Norland Square Loan Notes (in addition to those LJK Loan Notes issued in partial satisfaction of the Completion Consideration, further details of which are set out below).

The Completion Consideration shall be satisfied by Newco on Completion in a number of ways, namely by:

(i) cash, payable to certain of the Marsh & Parsons Shareholders (excluding Liza-Jane Kelly);

(ii) the issue of the Loan Notes to the Marsh & Parsons Management Shareholders;

(iii) the issue of the LJK Loan Notes to Liza-Jane Kelly;

(iv) the issue of the Growth Shares to the Marsh & Parsons Management Shareholders and Deferred Shares to Liza-Jane Kelly, and;

(v) the payment of the retention of £950,000 in cash into a joint retention account (further details of which are summarised below).

There is provision for a cash retention of £950,000 of the Completion Consideration payable to be paid into a retention account on Completion, by way of security for Newco in respect of any claims under the Acquisition Agreement. Such account will be held in the joint names of Newco's and the Marsh & Parsons Shareholder's solicitors and the retention will be held subject to their joint instructions. In addition to the £950,000 cash retention, Liza-Jane Kelly's proportionate contribution to the retention (being an extra £50,000) will be satisfied by the issue of LJK Loan Notes rather than cash. Such loan notes may be redeemed within 12 months from the date of Completion and the cash will then be paid into the retention account (see further paragraph D of this Part III below).

The provisions relating to the retention account provide that in the event of any breach by the Marsh & Parsons Management Shareholders of the Acquisition Agreement which becomes a settled claim, LSL shall be entitled to receive 95% of the value of such claim from the monies held in the retention account and shall be entitled to set off 5% of the value of such claim from the LJK Loan Notes (if Liza-Jane Kelly has not already redeemed such notes and transferred £50,000 into the retention account) in complete or partial satisfaction of such settled claim. In the event that Liza-Jane Kelly has already paid in the £50,000 (following redemption of the LJK Notes) into the retention account, then LSL shall be entitled to receive 100% of the value of such claim from the monies held in the retention account (subject to a maximum value of the retention, being £1.0m).

In the event that there are no unagreed claims outstanding between the parties on 1st April 2013, then any monies remaining in the retention account shall be released to the Marsh & Parsons Shareholders.

In the event that there are any unagreed claims outstanding between the parties on 1st April 2013, then a sum equal to the estimated unagreed amount shall remain in the retention account until such claim is agreed, settled or abandoned. Upon the last to be agreed, settled or abandoned of any such unagreed claim, the amount then standing to the credit of the retention account (if any) shall be released to the Marsh & Parsons Shareholders.

Completion of the Acquisition Agreement is conditional upon the approval of (a) the Shareholders at the General Meeting; and (b) Newco not becoming aware of any third party interest over the Marsh & Parsons shares prior to the date of Completion, other than the interests which have already been disclosed to Newco and which are to be released on Completion.

If such a Shareholder approval is not obtained by 5pm on 30th November 2011, the Marsh & Parsons Shareholders may either postpone Completion until such later date as is agreed with Newco or terminate the Acquisition Agreement. If condition (b) is not satisfied, Newco may terminate the Acquisition Agreement. The date of Completion is anticipated to be 22nd November 2011.

The Marsh & Parsons Shareholders shall procure that the Marsh & Parsons Group is conducted in the ordinary course of business and that it complies with pre Completion restrictions and pre Completion obligations during the interregnum period and prior to Completion. They also agree to consult and cooperate with the Company during this period in relation to all material matters concerning the running of the Marsh & Parsons business.

The Acquisition Agreement contains a "locked box" mechanism, pursuant to which the Marsh & Parsons Shareholders jointly and severally warrant to Newco that during the period between 31st July 2011 (the date to which the management accounts of Marsh & Parsons have been made up) and Completion, Marsh & Parsons has not, *inter alia*, created any encumbrances over any of its assets or transferred any of its assets; made any dividend, distribution or other payment (save for those permitted); made any payment in respect of its share capital; incurred any borrowings; or assumed any liabilities or waived any debt due to Marsh & Parsons. In the event that any such warranties are breached, the Marsh & Parsons Shareholders agree to pay on demand an amount equivalent to any loss, cost or expense incurred or suffered by Marsh & Parsons or a subsidiary where such would not have occurred had such warranties been true.

The Acquisition Agreement also provides:

1. for warranties (which are customary for an agreement of this nature) to be provided by the Marsh & Parsons Shareholders in relation to, *inter alia*, accounting, taxation, property, employment, insurance, litigation, intellectual property and trading matters;
2. for Newco to provide certain warranties (which are customary for an agreement of this nature) to the Marsh & Parsons Shareholders confirming constitutional authority to enter into the Acquisition Agreement;
3. for indemnities (which are customary for an agreement of this nature) to be provided by the Marsh & Parsons Shareholders to protect against any liability arising from, *inter alia*:
   - 3.1 any claims, losses, expenses, costs or fines suffered by any member of the LSL Group which arises as a result of any terms and conditions of business or other agreement ("**Unenforceable Agreement**") with customers who were put into such terms and conditions or who entered into such agreement prior to Completion being held, alleged or threatened as being unenforceable;
   - 3.2 any regulatory action in connection with an Unenforceable Agreement; and
   - 3.3 any of the shares in Marsh & Parsons being subject to an encumbrance which is not released on Completion;
4. that save in respect of claims relating to covenants regarding the ownership and good title of Marsh & Parsons shares, the transfer of such shares free from all encumbrances and the sale and purchase of all such shares simultaneously, that the aggregate liability of the Marsh & Parsons Shareholders in respect of all claims under the Acquisition Agreement shall not exceed an amount equal to sixty per cent of the sum of the Completion Consideration;
5. that no amount shall be payable by the Marsh & Parsons Shareholders unless and until the aggregate liability of the Marsh & Parsons Shareholders under all qualifying warranty claims exceeds £100,000 whereupon the Marsh & Parsons Shareholders shall be liable for both the initial £100,000 and the excess;
6. that the Marsh & Parsons Shareholders shall not be liable for any warranty claims following 31st March 2013 except in respect of a claim under the tax warranties where the Marsh & Parsons Shareholders will remain liable until the sixth anniversary of Completion;
7. that the Marsh & Parsons Shareholders shall have no liability for a claim under the indemnities unless written notice is received from Newco on or before the second anniversary of Completion; and

8. that the Marsh & Parsons Shareholders will provide non compete and non solicitation covenants which will apply for a period of 12 months post Completion (24 months in respect of non-solicitation of Marsh & Parsons employees).

**C. Summary of the key terms of the Loan Note Instrument**

The Loan Notes will be issued by Newco to the Marsh & Parsons Management Shareholders in partial satisfaction of the Completion Consideration due to them pursuant to the Acquisition.

Save in respect of a Loan Note Holder who is deemed to be a "bad leaver" (as such term is defined in the paragraph below), interest shall accrue on the Loan Notes from the date of issue at a rate of 12% per annum. In each 365 day period the accrued but unpaid interest on the Loan Notes shall be rolled up and shall be paid in full by Newco on 31st December 2020 or such earlier date on which the Loan Notes are redeemed.

A "bad leaver" includes any of the Marsh & Parsons Management Shareholders who ceases to be employed/engaged by Newco by reason of:

(i) resignation (other than by way of normal retirement age or due to his personal incapacity as a result of illness or injury which renders him permanently unable to perform his duties as a director, employee or consultant (as the case may be) or due to his mental illness or injury (save where such illness or injury is as a direct result from abuse of alcohol or drugs)); or

(ii) summary dismissal for gross misconduct; or

(iii) personal bankruptcy; or

(iv) any person who is determined by the board of Newco (acting reasonably) to have breached the restrictive covenant clause of the Investment Agreement.

In the event that a Loan Note Holder is a "bad leaver", then interest shall accrue on the Loan Notes at a rate of 2% per annum (and not 12% per annum) at all times.

Unless previously redeemed, Newco shall redeem the whole of the outstanding principal amount of the Loan Notes together with any accrued but unpaid interest (after any necessary tax deductions) up to but excluding the date of redemption, on the earlier of:

1. 31st December 2020; or
2. the first to occur of either:
    - (i) the original Loan Note Holder transferring full legal and beneficial title to all of his shares in Newco in accordance with the articles of association of Newco; or
    - (ii) a sale of the entire issued share capital of Newco; or
    - (iii) where the Note Holder is a "bad leaver", who leaves prior to 1st January 2016, the earlier of:
        - (a) 30th April 2016; or
        - (b) the completion of an event described in 2(ii) above in respect of another Note Holder; or
        - (c) any date notified to Newco by a director of Newco appointed by LSL;
    - (iv) where the note holder is a "bad leaver" and who leaves on or after 1st January 2016, the earlier of:
        - (a) the date another note holder transfers full legal and beneficial title to all his shares in Newco in accordance with the articles of association of Newco; or
        - (b) any date notified by an investor director of Newco; or
        - (c) a sale of the entire issued share capital of Newco; or
        - (d) 31st December 2020; or
    - (v) where the Loan Note Holder is not a "bad leaver", the date on which any shares held by him are due to be unconditionally acquired by LSL in accordance with the articles of association of Newco.

There is a right of set off in the Loan Note Instrument which enables Newco to set off against the Loan Notes (including any accrued but unpaid interest), at any time following the date that is 12 months from the date of Completion, the amount of any sums due from that Loan Note Holder arising from a breach by such holder of any terms of the Acquisition Agreement and/or the Investment Agreement.

**D. Summary of the key terms of the LJK Loan Note Instrument**

The LJK Loan Notes will be issued by Newco to Liza-Jane Kelly in:

(i) partial satisfaction of the Completion Consideration; and

(ii) satisfaction of her proportion of the retention monies (referred to in paragraph B of this Part III above).

Interest shall accrue on the LJK Loan Notes from the date of issue at a rate of 2% per annum until such loan notes are redeemed. The redemption date is the first anniversary of the date of issue of the LJK Loan Notes.

Upon redemption of the LJK Loan Notes, a sum equivalent to Liza-Jane Kelly's proportion of the retention monies shall be paid into the retention account to be dealt with in accordance with the joint instructions on such account.

## E. Summary of the key terms of the Norland Square Loan Note Instrument

The Norland Square Loan Notes will be issued by Newco to Peter Rollings and Liza-Jane Kelly in full satisfaction of any deferred claim consideration due to them pursuant to the Acquisition.

Interest shall accrue on the Norland Square Loan Notes from the date of issue at 2% per annum until they are redeemed. Redemption shall be:

(i) in the case of Norland Square Loan Notes issued within 6 calendar months of the date of Completion, the first anniversary of the date of Completion; or

(ii) in the case of Norland Square Loan Notes issued after the date which is 6 calendar months after the date of Completion, the date falling 6 months after the date of issue of the Norland Square Loan Notes.

## F. Summary of the key terms of the 2011 EBT

The 2011 EBT may subscribe for shares in the Enlarged Group (including Ordinary Shares or Growth Shares) or may purchase shares in the market in order to satisfy awards made to employees. In respect of shares acquired by subscription, the subscription price to be paid by the 2011 EBT will be the market value of the shares (such as Ordinary Shares or Growth Shares) on the day that the awards are made.

The trustee of the 2011 EBT will be Kleinwort Benson (Jersey) Trustees Limited, an independent trustee company based in Jersey.

The beneficiaries of the 2011 EBT will include employees and former employees of the Enlarged Group and certain of their relatives, other than those employees or relatives that are tax resident in Jersey. The benefits under the 2011 EBT will not be pensionable.

By the terms of the trust instrument, the trustee has absolute discretion to apply the trust fund for the benefit of the beneficiaries in such manner as the trustee thinks fit. In particular, the 2011 EBT:

(a) may acquire and hold shares in the Enlarged Group (including Ordinary Shares and Growth Shares) on behalf of beneficiaries;

(b) may grant options over or transfer shares in the Enlarged Group (including Ordinary Shares and Growth Shares) to beneficiaries;

(c) may transfer the trust fund to trustees of other settlements for the benefit of the same class of beneficiaries; and

(d) may pay taxes.

The duration of the 2011 EBT is eighty years.

The 2011 EBT will not hold more than 5% of the issued Ordinary Shares without Shareholder approval and the trustees of the 2011 EBT will not exercise any voting rights in respect of Ordinary Shares and Growth Shares held in the 2011 EBT from time to time except for Ordinary Shares and Growth Shares which are beneficially owned by any beneficiary of the 2011 EBT and in relation to which the 2011 EBT has received voting instructions from the beneficiary.

LSL (or other Group Companies) will fund the 2011 EBT to enable it to acquire Growth Shares. A copy of the deed relating to the 2011 EBT will be made available for inspection pursuant to paragraph 14 of Part VI of this Circular.

## G. Summary of the key terms of the Investment Agreement:

The Investment Agreement is conditional upon:

(i) the Acquisition Agreement and related documents being executed by the parties to them and becoming unconditional in all respects subject only to the payment of the Completion Consideration;

(ii) Peter Rollings subscribing for 85,426 B1 Growth Shares and 170,492 C Growth Shares and Liza-Jane Kelly subscribing for 62,826 B2 Growth Shares, 35,483 C Growth Shares and 10,000 Deferred Shares, the subscription monies in respect of which shall be satisfied by applying £0.4m of the Completion Consideration due to them under the Acquisition Agreement in exchange for the acquisition of the shares in Marsh & Parsons;

(iii) the issue of £5,083,368 Loan Notes to Peter Rollings, £1,062,405 Loan Notes to Liza-Jane Kelly and £1,494,026 LJK Loan Notes to Liza-Jane Kelly; and

(iv) the fulfilment of certain preconditions set out in the Investment Agreement (including, *inter alia*, the appointment of Liza-Jane Kelly and Peter Rollings to the board of Newco and the adoption of the new articles of association of Newco).

Subject to the completion of items (i) to (iv) above, LSL agrees to subscribe for 1,108,273 A Shares and 500,000 Deferred Shares on completion of the Investment Agreement, all such shares having the rights as set out in the articles of association of Newco.

Following completion of the Investment Agreement, Michael Baulk (who shall be appointed as Chairman of Newco) of shall subscribe for 19,500 C Shares and such shares shall be issued and allotted to Michael Baulk credited as fully paid upon receipt of the sum of £19,500 from the same. In addition, the 2011 EBT shall subscribe for 143,000 C Growth Shares and such shares shall be issued and allotted to 2011 EBT and these shares, in due course, shall be distributed to current and future management of Marsh & Parsons in accordance with the planned incentive arrangements.

The Investment Agreement also provides:

1. for warranties (which are customary for an agreement of this nature) to be provided by the Marsh & Parsons Management Shareholders in relation to, *inter alia*, personal warranties (which are customary for an agreement of this nature) regarding authority and good standing to enter into the agreement, warranties (which are customary for an agreement of this nature) relating to Newco's authority and good standing to enter into the agreement, conduct of Newco prior to the date of the Investment Agreement and non-insolvency of Newco and warranties (which are customary for an agreement of this nature) as to the accuracy of information produced by or for the Marsh & Parsons Management Shareholders;
2. that for so long as the Marsh & Parsons Management Shareholders hold any Growth Shares, LSL and the Marsh & Parsons Management Shareholders undertake to procure that, Newco and its subsidiaries shall be managed subject to certain restrictions (which are customary for an agreement of this nature), which can only be carried out with the prior consent of a majority of the board of Newco or with investor consent (as appropriate);
3. that the maximum aggregate liability of each of the Marsh & Parsons Management Shareholders for breach of the warranties shall be limited by the amount set opposite each persons' name in schedule 1 to the Investment Agreement. The Marsh & Parsons Management Shareholders shall not be liable for any breach of warranty unless the amount of such claim (when aggregated with any other claims by LSL) exceeds £35,000. In the case of dishonest concealment or fraud, the limitations shall not apply;
4. that Newco undertakes to LSL to provide LSL with all relevant financial and accounting information and to keep LSL informed of the progress of its business and affairs;
5. that Newco undertakes to LSL to comply with certain positive covenants and negative covenants relating to the proper running of the business that are customary for an agreement of this nature;
6. that the Marsh & Parsons Management Shareholders each covenant with LSL and Newco, *inter alia*, to devote the whole of his working time, attention and skill to the Marsh & Parsons business, keep all information confidential and not to damage the goodwill of the business and each agrees to be bound by non-competition and non-solicitation covenants for a period of three years after the date of Completion or, if earlier, upon the expiry of a period of one year following a transfer of all his Shares in Newco. They also each agree to procure the compliance of the obligations imposed by the Investment Agreement upon Newco and to comply with their own obligations as shareholders of Newco;
7. that at least one director appointed by LSL must be present at board meetings of Newco in order for any such meeting to be quorate; and
8. that any person wishing to become a shareholder of Newco must enter into a deed of adherence to the Investment Agreement and agree to be bound by its terms.

**H. Retention of Marsh & Parsons management team**

It is intended that, in due course, members of the current and future Marsh & Parsons management team will be invited to apply for C Growth Shares held by the 2011 EBT as part of a package of measures designed to incentivise all of the current and future management of Marsh & Parsons.

Holders of Growth Shares will have the option to sell their Growth Shares to LSL for cash during the first 6 months of each calendar year between 1st January 2016 and 30th June 2020, at their discretion at a price determined by an agreed formula ("**Price**"). The calculation of the Price will be made with reference to the time that has elapsed since Completion and the audited accounts of Marsh & Parsons in respect of the financial period ended immediately prior to the date of sale.

The Hurdle Value will be £78.0m as at 31st December 2015 and it will be increased by circa 10% per annum for each completed year post such period. The Price will be calculated by multiplying the actual EBITDA of Marsh & Parsons (as shown in the audited accounts for Marsh & Parsons in respect of the immediately preceding financial year) by an agreed multiple and adding the net cash generated in Marsh & Parsons from the date of Completion to the exit date. The agreed multiple applied to the EBITDA of Marsh & Parsons in calculating the Price will range from 6.5 to 8.0 based on incremental levels of EBITDA.

As stated above, as part of the consideration for the Marsh & Parsons shares which will be acquired by Newco at Completion, Newco will issue loan notes to the Marsh & Parsons Management Shareholders of an aggregate nominal value of £7.6m. The Loan Notes and the LJK Loan Notes will accrue interest at 12% and 2% respectively per annum on a rolled-up basis and the Loan Notes and LJK Loan Notes held by Marsh & Parsons Management Shareholders will be purchased (for an amount equal to their face value plus accrued and unpaid interest) by LSL at the same time as it purchases the Growth Shares from the Marsh & Parsons Management Shareholders.

In the event that a holder of any Growth Shares is employed by Marsh & Parsons and ceases to be employed before transferring his Growth Shares to LSL, the treatment of his Growth Shares varies by reference to the circumstances of his departure.

If the individual is a "bad leaver" (as such term is described in paragraph C of this Part III above) then he will (at the discretion of Newco) be required to offer his entire holding of Growth Shares for sale at the lower of:

(i) the price originally subscribed for such Growth Shares to the 2011 EBT; and

(ii) the Price.

A person who leaves for any other reason ("**Leaver**") shall be obliged to transfer his Growth Shares (at the discretion of Newco) for sale at the higher of:

(i) the price originally subscribed for such Growth Shares; and

(ii) the Price.

**PART IV**

**FINANCIAL INFORMATION ON MARSH & PARSONS**

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The Directors
LSL Property Services plc
Newcastle House
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Newcastle Business Park
Newcastle upon Tyne
NE4 7YB

4th November 2011

Dear Sirs

**Marsh & Parsons Limited**

We report on the financial information set out in on pages 20 to 38 for the years ended 31st December 2008, 2009 and 2010. This financial information has been prepared for inclusion in the class 1 circular relating to the acquisition of Marsh & Parsons Limited dated 4th November 2011 by LSL Property Services plc on the basis of the accounting policies set out in paragraph 2. This report is required by Listing Rule 13.5.21 and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the class 1 circular.

**Responsibilities**

The directors of LSL Property Services plc are responsible for preparing the financial information on the basis of preparation set out in note 2.1 to the financial information and in a form that is consistent with the accounting policies adopted in LSL Property Services plc's latest annual accounts.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the class 1 circular dated 4th November 2011, a true and fair view of the state of affairs of Marsh & Parsons Limited as at the dates stated, of its results and cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in LSL Property Services plc's latest annual accounts.

Yours faithfully

Ernst & Young LLP

**Statement of Comprehensive Income**

| | Note | *Year ended 31st December* 2008 £000 | 2009 £000 | 2010 £000 |
|---|---|---|---|---|
| ***Revenue*** | | **13,613** | **16,998** | **23,337** |
| ***Operating expenses*** | 3 | | | |
| Employee costs | 5 | (8,135) | (8,091) | (11,009) |
| Establishment costs | | (1,567) | (1,606) | (1,473) |
| Depreciation | 9 | (536) | (479) | (441) |
| Other | | (3,834) | (3,200) | (4,112) |
| | | **(14,072)** | **(13,376)** | **(17,035)** |
| ***Operating (loss) / profit*** | | **(459)** | **3,622** | **6,302** |
| Finance income | | 347 | 225 | 142 |
| Finance cost | | (593) | (305) | (189) |
| Net finance (expense)/income | 6 | (246) | (80) | (47) |
| ***(Loss) / profit before tax*** | | **(705)** | **3,542** | **6,255** |
| Taxation | 7 | 134 | (1,128) | (1,843) |
| ***(Loss) /profit for the year*** | | (571) | 2,414 | 4,412 |
| ***Total comprehensive income*** | | (571) | 2,414 | 4,412 |
| **Earnings per share (expressed in pence per share)** | | | | |
| Basic and diluted | 4 | (0.6) | 2.4 | 4.4 |

**Statement of Financial Position**

| | Note | 2008 £000 | 2009 £000 | 2010 £000 |
|---|---|---|---|---|
| | | *As at 31st December* | | |
| ***Non-current assets*** | | | | |
| Intangible assets | 8 | 4,242 | 4,242 | 4,242 |
| Property, plant and equipment | 9 | 3,182 | 2,833 | 3,177 |
| ***Total non-current assets*** | | **7,424** | **7,075** | **7,419** |
| ***Current assets*** | | | | |
| Trade and other receivables | 10 | 1,402 | 3,198 | 3,356 |
| Cash and cash equivalents | 11 | - | 2,168 | 3,268 |
| ***Total current assets*** | | **1,402** | **5,366** | **6,624** |
| ***Total assets*** | | **8,826** | **12,441** | **14,043** |
| ***Current liabilities*** | | | | |
| Financial liabilities | 13 | (4,498) | (6,878) | (2,918) |
| Trade and other payables | 12 | (1,487) | (2,476) | (3,112) |
| Current tax liabilities | | - | (479) | (906) |
| ***Total current liabilities*** | | **(5,985)** | **(9,833)** | **(6,936)** |
| ***Non-current liabilities*** | | | | |
| Financial liabilities | 13 | (2,806) | (30) | - |
| Deferred tax liability | 7 | (23) | (152) | (269) |
| | | **(2,829)** | **(182)** | **(269)** |
| ***Net assets*** | | **12** | **2,426** | **6,838** |
| ***Equity*** | | | | |
| Share capital | 15 | 1 | 1 | 1 |
| Share Premium | 15 | 1,278 | 1,278 | 1,278 |
| (Accumulated losses)/Retained Earnings | | (1,267) | 1,147 | 5,559 |
| ***Total equity*** | | **12** | **2,426** | **6,838** |

**Cash flow statement**

| | Year ended 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| **Cash flow from operating activities** | | | |
| (Loss)/profit for the year before tax | **(705)** | **3,542** | **6,255** |
| ***Adjustments*** | | | |
| Depreciation charges net of (profits)/losses on disposal | 588 | 635 | 433 |
| Decrease/(increase) in trade and other receivables | 1,495 | (1,831) | (179) |
| (Decrease)/increase in trade and other payables | (778) | 1,010 | 611 |
| Net finance expense (recognised in the Income Statement) | 246 | 80 | 47 |
| Finance costs paid | (592) | (384) | (189) |
| Finance income received | 286 | 264 | 142 |
| Income taxes paid | - | (520) | (1,300) |
| **Net cash from operating activities** | **540** | **2,796** | **5,820** |
| ***Cash flows from investing activities*** | | | |
| Disposal of property, plant and equipment | - | 5 | 31 |
| Purchase of property, plant and equipment | (223) | (298) | (763) |
| Payments to acquire businesses | (274) | (5) | - |
| **Net cash from investing activities** | **(497)** | **(298)** | **(732)** |
| ***Cash flows from financing activities*** | | | |
| Increase/(decrease) in loans from parent entity | 373 | (319) | (3,949) |
| Increase/(decrease) in bank and other loans | (866) | 151 | - |
| Capital element of finance lease payments | (11) | (11) | (39) |
| **Net cash from financing activities** | **(504)** | **(179)** | **(3,988)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(461)** | **2,319** | **1,100** |
| **Cash and cash equivalents at 1st January** | **310** | **(151)** | **2,168** |
| **Cash and cash equivalents at 31st December** | **(151)** | **2,168** | **3,268** |

**Statement of changes in equity**

| | *Share capital £000* | *Share premium account £000* | *Retained earnings £000* | *Total equity £000* |
|---|---|---|---|---|
| **At 1st January 2008** | **1** | **1,278** | **(696)** | **583** |
| Loss for the year | - | - | (571) | (571) |
| Other comprehensive income | - | - | - | - |
| **At 31st December 2008** | **1** | **1,278** | **(1,267)** | **12** |
| Profit for the year | - | - | 2,414 | 2,414 |
| Other comprehensive income | - | - | - | - |
| **At 31st December 2009** | **1** | **1,278** | **1,147** | **2,426** |
| Profit for the year | - | - | 4,412 | 4,412 |
| Other comprehensive income | - | - | - | - |
| **At 31st December 2010** | **1** | **1,278** | **5,559** | **6,838** |

## Notes to financial information

### 1. Corporate information

Marsh & Parsons is a subsidiary of Sherry FitzGerald. Marsh & Parsons is a private company incorporated and domiciled in the UK. Marsh & Parsons operates an estate agency network and a residential lettings business.

Marsh & Parsons' registered address is Hamlet House, 77 Fulham Palace Road, London, W6 8JA.

### 2. Significant accounting policies

#### *2.1 Basis of preparation*

The financial information has been prepared in accordance with the requirements of the Listing Rules, this basis of preparation and the accounting policies adopted by LSL Property Services plc in its latest annual accounts. The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union (IFRSs as adopted by the EU) that were effective at 31st December 2010.

The financial information has been prepared on a historical cost basis.

The accounting policies which follow set out those significant policies which apply in preparing the financial information for the year ended 31st December 2010. The financial information is presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

#### *2.2 Transition to IFRS*

The Financial Information of Marsh & Parsons has been adjusted for the effects of changes in accounting policies on transition to IFRS. These adjustments are summarised in note 19 below.

IFRS 1 "First-time adoption of International Financial Reporting Standards" has been applied including the exemption from restating past business combinations (under IFRS 3).

#### *2.3 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*

Marsh & Parsons determines whether goodwill is 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. Refer to note 8 for details.

#### *2.4 Revenue recognition*

Turnover is generated in the UK and primarily comprises commissions relating to sale of residential property, introduction fees for residential lettings and fees for residential lettings managed by Marsh & Parsons.

Commission income for residential sales is recognised on exchange of contracts. Lettings introduction fee income is recognised on contract signing. Lettings management fee income is recognised as the services are performed.

Interest revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

### *2.5 Financial instruments*

***Financial assets***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Marsh & Parsons determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Marsh & Parsons' financial assets include cash and short term deposits, trade and other receivables and loan notes.

***2.5.1 Cash and cash equivalents***

Cash and cash equivalents consist of cash and balances at banks that are freely available, and loans and advances to banks with an original maturity of three months or less excluding financial assets that are held for trading purposes.

***2.5.2 Trade and other receivables***

Trade and other receivables are stated at amortised cost less provision for impairment losses.

***Impairment of financial assets***

*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 Marsh & Parsons 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 uncollectable.

***Financial liabilities***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Marsh & Parsons determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value (inclusive of directly attributable transaction costs where applicable) and are subsequently carried at amortised cost.

Marsh & Parsons' financial liabilities include trade and other payables and bank loans.

***2.5.3 Trade and other payables***

Trade and other payables are recognised at fair value and subsequently stated at amortised cost.

***2.5.4 Bank loans***

Bank loans are initially recognised at fair value, inclusive of directly attributable transaction costs, and subsequently stated at amortised cost.

### *2.6 Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Long leasehold property is stated at cost and depreciated over the shorter of the lease term and the useful life, considered to be fifty years. Improvements to leasehold properties are stated at cost and are depreciated in equal instalments over the lesser of the remaining life of the lease or life of the asset. Premiums are amortised over the period of the lease.

The cost of equipment, which includes fixtures and fittings, vehicles and computer hardware, less estimated residual value, is written off in equal instalments over the expected lives of the assets, generally between three and seven years.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to Marsh & Parsons and the cost of the item can be measured reliably.

Property, plant and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

### 2.7 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided: goodwill not deductible for tax purposes, and the initial recognition of assets and liabilities that affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that are enacted or substantively enacted at the balance sheet date.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.8 Finance leases and operating leases

Assets held under finance leases, which transfer to Marsh & Parsons substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant proportion of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the term.

### 2.9 Pension costs

Contributions were made by Marsh & Parsons to the defined contribution personal pension plans of certain employees. The expenditure was charged to the income statement in the period to which it related. The last such contribution was made in 2008.

### 2.10 Business combinations under IFRS 3

Business combinations on or after 1$^{st}$ January 2008 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over Marsh & Parsons' 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$^{st}$ January 2008 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.

### 2.11 Impairment

Marsh & Parsons 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, Marsh & Parsons 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.

For assets excluding goodwill, 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, Marsh & Parsons estimates the assets' or cash generating unit's recoverable amount.

***2.12 New accounting standards and interpretations***

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** |
|---|---|---|
| IAS 39 | Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment) | 1st July 2009 |
| IAS 32 | Amendments to IAS 32 Classification of Rights Issue | 1st February 2010 |
| IAS 24 | Related Party Disclosures (Revised) | 1st January 2011 |
| IFRS 9 | Financial Instruments: Classification and Measurement 1st January 2013 | |
| IAS 12 | Income Taxes – Deferred Tax: Recovery of Underlying Assets | 1st January 2012 |
| IAS 1 | Presentation of financial statements – Amendments to revise the way other comprehensive income is presented | 1st July 2012 |
| IAS 19 | Employee benefits – Amended standard resulting from post employment benefits and terminations benefits projects | 1st January 2013 |
| IAS 27 | Separate financial statements (revised) | 1st January 2013 |
| IAS 28 | Investments and associates and joint ventures (revised) | 1st January 2013 |
| IFRS 10 | Consolidated financial statements | 1st January 2013 |
| IFRS 11 | Joint arrangements | 1st January 2013 |
| IFRS 12 | Disclosure of interests in other entities | 1st January 2013 |
| IFRS 13 | Fair value measurement | 1st January 2013 |

| *International Financial Reporting Interpretations Committee (IFRIC)* | | *Effective date** |
|---|---|---|
| ***New interpretations*** | | |
| IFRIC 14 | Amendments to IFRIC 14 – Prepayments of a minimum funding requirement | 1st January 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1st July 2010 |

* The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As Marsh & Parsons 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 Company's discretion to adopt standards early.

The IASB's third annual improvements project, "Improvements to International Financial Reporting Standards 2010", published on May 6th, 2010 including amendments to IFRS 1, 3 & 7, IAS 1, 27 & 34 and IFRIC 13 (effective dates are dealt with on a standard-by-standard basis).

The Directors do not expect the other standards and interpretations to have any material impact.

## 3. Operating expenses

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Operating expenses include: | | | |
| Auditors' remuneration – for audit work | 30 | 31 | 31 |
| Depreciation of property, plant & equipment | 441 | 479 | 536 |
| Payments under operating leases – plant and equipment | 132 | 82 | 45 |
| Payments under operating leases – land and buildings | 1,238 | 1,225 | 1,069 |

## 4. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Marsh & Parsons 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 any dilutive potential ordinary shares into ordinary shares.

| | *2008 Profit after tax £000* | *2008 Per share amount Pence* | *2009 Profit after tax £000* | *2009 Per share amount Pence* | *2010 Profit after tax £000* | *2010 Per share amount Pence* |
|---|---|---|---|---|---|---|
| Basic and diluted EPS | (571) | (0.6) | 2,414 | 2.4 | 4,412 | 4.4 |

The weighted average number of shares at each of the year ends was 100,000,000 shares. There are no dilutive potential ordinary shares in Marsh & Parsons and hence the basic and diluted earnings per share are the same.

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

## 5. Personnel expenses

Remuneration of key management personnel (all directors):

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008 £000* | *2009 £000* | *2010 £000* |
| Short term employment benefits | 659 | 1,247 | 1,495 |
| Post employment benefits | 16 | - | - |

Emoluments during the year were paid to six directors employed by Marsh & Parsons (2009: six, 2008: six). Retirement benefits are accruing to no directors (2009: nil, 2008: three) under a money purchase pension scheme. Two other directors were remunerated elsewhere in the Sherry FitzGerald group and receive no payments specifically for their services to Marsh & Parsons.

Employee numbers and costs:

The aggregate payroll costs of persons who rendered services to Marsh & Parsons were as follows:

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008 £000* | *2009 £000* | *2010 £000* |
| Wages and salaries | 7,214 | 7,276 | 9,891 |
| Social security costs | 901 | 815 | 1,118 |
| Pension costs | 20 | - | - |
| | 8,135 | 8,091 | 11,009 |

The monthly staff numbers who rendered services to Marsh & Parsons were as follows:

| | *As at 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| Selling | 130 | 144 | 175 |
| Administrative | 14 | 9 | 10 |
| | 144 | 153 | 185 |

## 6. Net finance (expense)/income

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Bank interest expense | (325) | (141) | (130) |
| Interest expense on intercompany balances | (262) | (161) | (57) |
| Finance lease interest expense | (6) | (3) | (2) |
| Total interest expense | (593) | (305) | (189) |
| Bank interest income | 347 | 225 | 142 |
| Net interest (expense)/income | (246) | (80) | (47) |

## 7. Taxation

Recognised in the income statement

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Current tax: | | | |
| Corporation tax (credit)/charge for the year | (128) | 999 | 1,726 |
| Corporate tax (credit) in respect of earlier years | (29) | - | |
| | (157) | 999 | 1,726 |
| Deferred tax: | | | |
| Deferred tax charge | 23 | 129 | 117 |
| Total tax (credit)/charge | (134) | 1,128 | 1,843 |

All the deferred tax credits and charges recognised above relate to the origination and reversal of temporary differences between incomes and expenses allowable for taxation purposes and those recognised under IFRS.

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 28% (2009: 28%, 2008: 28.5%). The differences are explained below:

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| (Loss)/profit on ordinary activities before taxation | (705) | 3,542 | 6,255 |
| (Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK | (201) | 992 | 1,751 |
| *Effects of:* | | | |
| Disallowable expenses | 104 | 102 | 97 |
| Others | (8) | 34 | (5) |
| Adjustments to tax in respect of previous years | (29) | - | |
| Income tax (credit)/charge for the year | (134) | 1,128 | 1,843 |

**Deferred tax**

The movement in the deferred tax liability was as follows:

| | *2008* | *2009* | *2010* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| At 1st January | - | 23 | 152 |
| Current year charge to income | 23 | 129 | 117 |
| At 31st December | 23 | 152 | 269 |
| Deferred tax liability comprises: | | | |
| Decelerated capital allowances | (32) | (35) | (11) |
| Others | (39) | - | - |
| Amortisation of goodwill allowable for tax purposes | 94 | 187 | 280 |
| | 23 | 152 | 269 |

The standard rate of corporation tax for the year ended 31st December 2008 of 28.5% reflects the weighted average rate following the reduction in the statutory rate from 30% to 28% on 1st April 2008.

## 8. Intangible assets

### Goodwill

| | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 |
|---|---|---|---|
| At 1st January | 4,262 | 4,242 | 4,242 |
| Adjustments (see note below) | (20) | - | - |
| At 31st December | 4,242 | 4,242 | 4,242 |

On 26th October 2007 Marsh & Parsons acquired the trade and assets of InterLet Properties, an estate agency business, for a total consideration of £257,000 (cash of £232,000 and deferred consideration of £25,000). In October 2008 the deferred consideration was adjusted and reduced by £20,000 to £5,000 in accordance with the provisions in the Sale and Purchase Agreement. The balance of £5,000 was paid in March 2009.

All of the above goodwill is related to the estate agency business. Marsh & Parsons manages all branches as one cash generating unit and hence the entire company is considered as one cash generating unit. This represents the lowest level within Marsh & Parsons at which goodwill is monitored for internal management purposes.

The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets and three year plan. The discount rate applied to cash flow projections is 11.5% (2009 – 14%, 2008 – 15%) and cash flows beyond the three year plan are extrapolated using a nil% (2009 – nil%, 2008 – nil%) growth rate even though there is evidence of gain in market share in 2009 and 2010.

***Key assumptions used in value in use calculations***

The calculation of value in use is most sensitive to the following assumptions:

- profitability
- discount rates
- growth rate used to extrapolate cash flows beyond the budget period

*Profitability* is based on the financial budgets and three year plan, with growth rates being applied thereafter.

*Discount rates*

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.

Discount rates represent the current market assessment of the risks specific to the company, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the company and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the company's shareholders. The cost of debt is based on the interest bearing borrowings the company is obliged to service.

*Growth rate* estimates are based on management estimates.

The results of the impairment tests in 2010 confirmed that there had been no impairment in respect of the carrying amount of goodwill held on the balance sheet.

***Sensitivity to changes in assumptions***

With regard to the assessment of value in use for goodwill, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to exceed its recoverable amount. Despite the unprecedented market conditions, Marsh & Parsons has been trading profitably in 2009 and 2010.

## 9. Property, plant and equipment

| | Leasehold property £000 | Leasehold improvements £000 | Equipment fixtures fittings & Vehicles £000 | Total £000 |
|---|---|---|---|---|
| ***Cost:*** | | | | |
| At 1st January 2008 | 1,390 | 1,899 | 1,168 | 4,457 |
| Additions | - | 24 | 73 | 97 |
| Disposals | - | (2) | (211) | (213) |
| At 31st December 2008 | 1,390 | 1,921 | 1,030 | 4,341 |
| At 1st January 2009 | 1,390 | 1,921 | 1,030 | 4,341 |
| Additions | 80 | 129 | 80 | 289 |
| Transfers | - | (16) | 16 | - |
| Disposals | (65) | (190) | (17) | (272) |
| At 31st December 2009 | 1,405 | 1,844 | 1,109 | 4,358 |
| At 1st January 2010 | 1,405 | 1,844 | 1,109 | 4,358 |
| Additions | 24 | 290 | 495 | 809 |
| Disposals | - | - | (80) | (80) |
| At 31st December 2010 | 1,429 | 2,134 | 1,524 | 5,087 |
| ***Depreciation:*** | | | | |
| At 1st January 2008 | 178 | 264 | 336 | 778 |
| Charged in the year | 78 | 192 | 266 | 536 |
| On disposals | - | - | (155) | (155) |
| At 1st December 2008 | 256 | 456 | 447 | 1,159 |
| At 1st January 2009 | 256 | 456 | 447 | 1,159 |
| Charged in the year | 65 | 194 | 220 | 479 |
| Transfer | - | (5) | 5 | - |
| On disposals | (20) | (76) | (17) | (113) |
| At 31st December 2009 | 301 | 569 | 655 | 1,525 |
| At 1st January 2010 | 301 | 569 | 655 | 1,525 |
| Charged in the year | 38 | 184 | 219 | 441 |
| On disposals | - | - | (56) | (56) |
| At 31st December 2010 | 339 | 753 | 818 | 1,910 |
| *Net book value:* | | | | |
| At 31st December 2008 | 1,134 | 1,465 | 583 | 3,182 |
| At 31st December 2009 | 1,104 | 1,275 | 454 | 2,833 |
| At 31st December 2010 | 1,090 | 1,381 | 706 | 3,177 |

Leasehold property consists of capitalised leases whose premium has been paid up-front. Details of assets pledged for security for liabilities of Marsh & Parsons are provided in note 13.

## 10. Trade and other current receivables

| | As at 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Trade receivables | 570 | 2,216 | 2,036 |
| Prepayments and other debtors | 832 | 982 | 1,320 |
| | 1,402 | 3,198 | 3,356 |

Trade receivables are shown net of impairment allowance. The movement in impairment allowance is analysed as follows:

| | *2008* | *2009* | *2010* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| Balance at 1st January | (49) | (84) | (50) |
| Amounts charged to the income statement during the year | (140) | (69) | (20) |
| Utilisation of provision | 105 | 103 | 5 |
| Balance at 31st December | (84) | (50) | (65) |

*Objective evidence of impairment*

Marsh & Parsons assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Use of an allowance account*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Debts together with the associated allowance are written off when there is no realistic prospect of future recovery and collateral (if any) has been realised. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

## 11. Cash and cash equivalents

| | As at 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Cash (at bank and in hand) | - | 2,168 | 3,268 |
| Bank overdraft | (151) | - | - |
| Total cash and cash equivalents | (151) | 2,168 | 3,268 |

Amounts shown for cash and cash equivalents do not include clients' monies held on deposit in the sum of £11.6m (2009: £9.4m; 2008: £9.0m). These amounts are similarly excluded from current liabilities. These are not included in the balance sheet, as Marsh & Parsons is not entitled to the benefit from the use of the amount held in these accounts.

## 12. Trade and other payables

| | As at 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Trade payables | 405 | 95 | 190 |
| Other taxes and social security costs | 389 | 700 | 874 |
| Other payables | 46 | 25 | 26 |
| Accruals and deferred income | 647 | 1,656 | 2,022 |
| | 1,487 | 2,476 | 3,112 |

## 13. Financial liabilities

| | As 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| *Current* | | | |
| Loans from parent undertaking | 4,331 | 3,949 | - |
| Bank loans and overdrafts | 151 | 2,918 | 2,918 |
| Finance leases | 11 | 11 | - |
| Deferred consideration | 5 | - | - |
| | 4,498 | 6,878 | 2,918 |

| | As at 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| *Non-Current* | | | |
| Bank loans secured | 2,767 | - | - |
| Finance leases | 39 | 30 | - |
| | 2,806 | 30 | - |

*Parent Company loan terms*

Sherry FitzGerald provided capital loans to Marsh & Parsons of £1.3 million which were non-interest-bearing. Additionally, Sherry FitzGerald provided a working capital facility to Marsh & Parsons on which interest is charged on a quarterly basis at the agreed rate; European Central Bank 3 month Inter Bank rate plus a margin of 4.75%. Sherry FitzGerald had secured the loans with a debenture over Marsh & Parsons. The full loan balance was repaid by 31st December 2010.

*Bank loan terms & security*

The bank loan interest was charged on a quarterly basis at the agreed rate; 3 month LIBOR plus a margin of 3.25%. The carrying amounts of borrowings are denominated in Sterling and the carrying amounts of the short term borrowings approximate their fair value. Marsh & Parsons has an undrawn committed facility which is negotiated on an annual basis with its bank. In December 2010 Marsh & Parsons obtained an extension of these facilities on the same terms as above. The loans are to be repaid in full on 31st December 2011.

The bank loan is secured by a legal charge over the property leases of Marsh & Parsons and by a fixed and floating charge over all the assets and undertakings of Marsh & Parsons.

## 14. Financial instruments

A number of Marsh & Parsons' assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation".

Marsh & Parsons' financial instruments are principally bank loans, parent company loans, cash and liquid resources and various receivables and payables that arise directly from its operations. It is, and has been throughout the year under review, Marsh & Parsons' policy that no trading in financial instruments is undertaken.

The principal risks arising from Marsh & Parsons' financial instruments are credit risk, interest rate risk and liquidity risk. Further detailed analysis of the risks facing Marsh & Parsons in relation to its financial instruments is provided below.

***14.1 Credit risk***

Credit risk is the risk of financial loss arising from a customer's failure to settle financial obligations as they fall due.

Credit risk arises on trade and other receivables and cash and cash equivalents. In order to mitigate the risk of default, a credit policy is in place and the exposure to credit risk is monitored on an ongoing basis. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

Trade receivables outstanding at year end are analysed into the following categories:

| *Amounts £000* | *0-30 days* | *31-60 days* | *61-90 days* | *over 90 days* | *Total* |
|---|---|---|---|---|---|
| **31st December 2008** | | | | | |
| Gross trade receivables | 508 | 31 | 13 | 102 | 654 |
| Provision for impairment | - | - | - | (84) | (84) |
| Net trade receivables | 508 | 31 | 13 | 18 | 570 |
| **31st December 2009** | | | | | |
| Gross trade receivables | 2,150 | 6 | 18 | 92 | 2,266 |
| Provision for impairment | - | - | - | (50) | (50) |
| Net trade receivables | 2,150 | 6 | 18 | 42 | 2,216 |
| **31st December 2010** | | | | | |
| Gross trade receivables | 2,012 | 20 | 3 | 66 | 2,101 |
| Provision for impairment | - | - | - | (65) | (65) |
| Net trade receivables | 2,012 | 20 | 3 | 1 | 2,036 |

For receivables and payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value.

For financial liabilities with a remaining life of more than one year, the carrying amount is deemed to be fair value.

***14.2 Interest rate risk***

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which are reset at different times. In relation to income earning financial assets and interest bearing financial liabilities, the inter-company loan account and bank loan is exposed to cash-flow interest rate risk as it carries a floating interest rate that is reset as market rates change.

At 31st December 2010, if interest rates had been 25 basis points higher or lower with all other variables held constant, the net effect on Marsh & Parsons' income statement would be as shown in the table below:

| | *Year ended 31st December* | | |
|---|---|---|---|
| | -25bps 2010 £000 | Actual 2010 £000 | +25bps 2010 £000 |
| Profit before tax for the year | 6,244 | 6,255 | 6,266 |
| | -25bps 2009 £000 | Actual 2009 £000 | +25bps 2009 £000 |
| Profit before tax for the year | 3,528 | 3,542 | 3,556 |
| | -25bps 2008 £000 | Actual 2008 £000 | +25bps 2008 £000 |
| Loss before tax for the year | (690) | (705) | (720) |

***14.3 Liquidity risk***

Liquidity risk is the risk that Marsh & Parsons is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost.

All liabilities are payable on demand, and Marsh & Parsons has adequate assets and has been operating with significant net cash inflows from operations. Therefore, it is well placed to mitigate such liquidity risk.

The table below summarises the maturity profile of Marsh & Parsons' financial liabilities based on contractual undiscounted payments:

**31st December 2008**

| | *On demand £000* | *Less than 3 months £000* | *3 to 12 months £000* | *1 to 5 years £000* | *Total* |
|---|---|---|---|---|---|
| Parent company loans | 4,331 | - | - | - | 4,331 |
| Bank loans | 151 | - | - | 2,767 | 2,918 |
| Finance leases | - | - | 11 | 39 | 50 |
| Trade and other payables | - | 840 | 647 | - | 1,487 |
| | 4,482 | 840 | 658 | 2,806 | 8,786 |

**31st December 2009**

| | *On demand £000* | *Less than 3 months £000* | *3 to 12 months £000* | *1 to 5 years £000* | *Total* |
|---|---|---|---|---|---|
| Parent company loans | 3,949 | - | - | - | 3,949 |
| Bank loans | - | - | 2,918 | - | 2,918 |
| Finance leases | - | - | 11 | 30 | 41 |
| Trade and other payables | - | 820 | 1,656 | - | 2,476 |
| | 3,949 | 820 | 4,585 | 30 | 9,384 |

**31st December 2010**

| | *On demand £000* | *Less than 3 months £000* | *3 to 12 months £000* | *1 to 5 years £000* | *Total* |
|---|---|---|---|---|---|
| Parent company loans | - | - | - | - | - |
| Bank loans | - | - | 2,918 | - | 2,918 |
| Finance leases | - | - | - | - | - |
| Trade and other payables | - | 1,090 | 2,022 | - | 3,112 |
| | - | 1,090 | 4,940 | - | 6,030 |

All the above interest bearing loans and borrowings are subject to floating rate interest as mentioned in note 13 above.

## 15. Capital and reserves

Equity

| | *As at 31st December 2008 £000* | *2009 £000* | *2010 £000* |
|---|---|---|---|
| Authorised: 100 million ordinary shares of £0.00001 each | - | - | - |
| Issued, called up and paid up: 100 million ordinary shares of £0.00001 each | 1 | 1 | 1 |

***Ordinary share capital***

Marsh & Parsons has one class of share capital in issue comprising the ordinary share capital listed above. All ordinary shares carry equal voting rights.

***Share premium***

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

***Capital disclosures***

Marsh & Parsons was not subject to externally imposed capital requirements in either the current year or the previous years. Marsh & Parsons manages its capital (comprising of share capital, loans from parent undertaking and bank loans and overdrafts) in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by Marsh & Parsons. To maintain or adjust the capital structure, Marsh & Parsons may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as considered appropriate by the directors.

## 16. Operating lease and finance lease commitments

Marsh & Parsons has commitments under non-cancellable operating leases in respect of land and buildings and the future minimum lease rentals payable are given below. This is based on the current amounts payable. Certain of the properties are subject to rent reviews at various intervals.

| | *As at 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| *Amounts payable:* | | | |
| Within one year | 730 | 637 | 719 |
| Within two to five years | 2,125 | 1,819 | 2,230 |
| After five years | 3,004 | 2,728 | 3,325 |
| | 5,859 | 5,184 | 6,274 |

Marsh & Parsons has commitments under non-cancellable operating leases in respect of motor vehicles and other assets and the future minimum lease rentals payable are given below. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

| | *As at 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| *Amounts payable:* | | | |
| Within one year | 402 | 181 | 64 |
| Within two to five years | 165 | 18 | 107 |
| | 567 | 199 | 171 |

Future minimum lease rentals payable under finance leases are as follows:

| | *As at 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| *Amounts payable:* | | | |
| Within one year | 16 | 13 | - |
| Within two to five years | 45 | 30 | - |
| Minimum future lease payments | 61 | 43 | - |
| Less: Finance charges | (11) | (3) | - |
| Present value of finance lease commitments | 50 | 40 | - |

The above disclosure on minimum lease rentals relates to assets held under finance leases (motor vehicles) which have been capitalized within Property, Plant and Equipment, as presented in note 9.

## 17. Transactions with related parties

Emoluments paid to key management personnel are shown below:

| | *Year ended 31st December* | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Aggregate emoluments | 659 | 1,247 | 1,495 |
| Pension costs | 16 | - | - |
| | 675 | 1,247 | 1,495 |

**Transactions with key management personnel**

| | Year ended 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Fees paid by Mr P Rollings for services provided by Marsh & Parsons | 5 | 4 | 4 |
| Fees paid by Mr K Gorny for services provided by Marsh & Parsons | - | - | 2 |
| Fees paid by Mr M Winter for services provided by Marsh & Parsons | 14 | - | - |
| Cost of services provided by Marsh & Parsons to Mr P Rollings for which Marsh & Parsons did not receive any income | - | - | 3 |
| Cost of services provided by Marsh & Parsons to Ms L-J Kelly for which Marsh & Parsons did not receive any income | - | - | 9 |
| Rental payment for premises on lease from Mr M Winter | 64 | - | - |

There were no balances outstanding for any of the above transactions with key management personnel.

Mrs E Schroeder, a director of Marsh & Parsons is a director of a company that supplied services to Marsh & Parsons. The services were supplied at arms' length. Marsh & Parsons paid £27,000 for the services (2009: £nil, 2008: £nil). There was a zero balance outstanding at the year-end.

**Transactions with parent company**

| | Year ended 31st December | | |
|---|---|---|---|
| | *2008* | *2009* | *2010* |
| | *£000* | *£000* | *£000* |
| Cost incurred by parent company and recharged to Marsh & Parsons | 67 | 141 | 90 |
| Interest paid to parent company on loan provided | 262 | 161 | 57 |
| Balance payable at 31st December | 4,331 | 3,949 | - |

## 18. Ultimate parent undertaking

As at 31st December 2010 Marsh & Parsons' immediate parent company was Sherry FitzGerald.

The ultimate parent undertaking is Sherry FitzGerald, a company incorporated in the Republic of Ireland.

Sherry FitzGerald is the parent undertaking of the largest and smallest groups of undertakings to consolidate the financial statements of this company at 31st December 2010. The consolidated financial statements of Sherry FitzGerald are available from 164 Shelbourne Road, Ballsbridge, Dublin 4.

## 19. Transition to IFRS

### *19.1 Exemptions applied*

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs retrospectively.

We have applied the following exemption:

- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1st January 2008.

### *19.2 Recognition differences*

On conversion of Marsh & Parsons' financial information from UK GAAP to IFRS, the amortisation of goodwill to the profit and loss account under UK GAAP has been removed. Therefore, in the IFRS information presented here, the amortisation expense reported under UK GAAP of £0.628m (2009: £0.628m, 2008: £0.628m) has been removed. In addition, a further deferred tax liability of £0.093m (2009: £0.093m, 2008: £0.094m) has been recognised for tax deductions received on the amortisation of goodwill, meaning that the deferred tax asset under UK GAAP of £0.01m (2009: £0.04m, 2008: £0.07m) has changed to a deferred tax liability of £0.27m (2009: £0.15m, 2008: £0.02m) under IFRS.

Profit after tax under IFRS is higher by £0.535m (2009: £0.535m, 2008: £0.534m) compared to Marsh & Parsons' financial statements under UK GAAP.

There were no other adjustments made, and as such there was no change to the amount previously reported under UK GAAP in respect of equity at 1st January 2008 of £583,000. The opening balance sheet as at that date, being the date of transition to IFRS is set out below:

| | *£000* |
|---|---|
| ***Non-current assets*** | |
| Intangible assets | 4,262 |
| Property, plant and equipment | 3,680 |
| ***Total non-current assets*** | 7,942 |
| ***Current assets*** | |
| Trade and other receivables | 2,813 |
| Cash and cash equivalents | 310 |
| Total current assets | 3,123 |
| Total assets | 11,065 |
| ***Current liabilities*** | |
| Financial liabilities | (4,864) |
| Trade and other payables | (2,655) |
| Current tax liabilities | (157) |
| ***Total current liabilities*** | (7,676) |
| ***Non-current liabilities*** | |
| Financial liabilities | (2,806) |
| Net assets | 583 |
| ***Equity*** | |
| Share capital | 1 |
| Share premium | 1,278 |
| Accumulated losses | (696) |
| ***Total equity*** | 583 |

***19.3 Presentation differences***

In preparing Marsh & Parsons' financial information under the IFRS framework, certain balances have been presented differently. We have separated out the deferred tax assets from other current assets where applicable. We have also separated out current tax liabilities, financial liabilities and trade and other receivables from the current and non-current liabilities as presented under UK GAAP.

***19.4 Differences in the cashflow statement***

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

## PART V

## PRO FORMA STATEMENT OF NET ASSETS FOR THE ENLARGED GROUP

The following unaudited pro forma statement of net assets of LSL has been prepared based upon the unaudited consolidated LSL financial statements for the half year ended 30th June 2011 and the audited balance sheet of Marsh & Parsons as at 31st December 2010, included in Part IV, in order to illustrate the consolidated statement of net assets of the LSL Group as if the Transaction had occurred on 30th June 2011. The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes set out below and in accordance with Annex I and Annex II of the Prospectus Directive Regulation 809/2004. The Unaudited Pro Forma Financial Information is stated on the basis of the accounting policies of LSL.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, addresses a hypothetical situation and does not therefore represent the LSL Group's actual financial position or results in any of the circumstances presented.

Ernst & Young's report on the Unaudited Pro Forma Financial Information is set out at the end of this Part V.

| | | | Adjustments | | | | |
|---|---|---|---|---|---|---|---|
| | LSL At 30th June 2011 Note 1 £000 | Marsh & Parsons At 31st Dec 2010 Note 2 £000 | Payment of consideration Note 3 £000 | Re-investment of part proceeds Note 4 £000 | Payment of expenses Note 5 £000 | Consolidation adjustments Note 6 £000 | Total £000 |
| **Non-current assets** | | | | | | | |
| Goodwill | 74,932 | 4,242 | | | | 45,306 | 124,580 |
| Other intangible assets | 13,661 | - | | | | | 13,661 |
| Property, plant and equipment | 14,350 | 3,177 | | | | | 17,527 |
| Financial assets | 347 | - | | | | | 347 |
| Investments accounted for under the equity method | 700 | - | 53,100 | | | (53,100) | 700 |
| **Total non-current assets** | **103,990** | **7,419** | **53,100** | **-** | **-** | **(7,794)** | **156,715** |
| **Current assets** | | | | | | | |
| Trade and other receivables | 30,795 | 3,356 | | | | | 34,151 |
| Cash and cash equivalents | 269 | 3,268 | | | | (3,268) | 269 |
| **Total current assets** | **31,064** | **6,624** | - | - | - | (3,268) | **34,420** |
| **Total assets** | **135,054** | **14,043** | **53,100** | **-** | **-** | **(11,062)** | **191,135** |
| **Current liabilities** | | | | | | | |
| Trade and other payables | (46,924) | (3,112) | | | | 400 | (49,636) |
| Current tax liabilities | (1,903) | (906) | | | | 906 | (1,903) |
| Financial liabilities | - | (2,918) | | | | 2,918 | - |
| Provisions for liabilities and charges | (440) | - | | | | - | (440) |
| **Total current liabilities** | **(49,267)** | **(6,936)** | **-** | **-** | **-** | **4,224** | **(51,979)** |
| **Non-current liabilities** | | | | | | | |
| Financial liabilities – third parties | (6,494) | - | (53,100) | 8,000 | (1,000) | | (52,594) |
| Financial liabilities – Marsh & Parsons Management Shareholders | | | | | | | |
| – Loan Notes | | | | (7,600) | | | (7,600) |
| – Growth Shares | | | | (400) | | | (400) |
| Deferred tax liability | (2,135) | (269) | | | | | (2,404) |
| Provisions for liabilities and charges | (10,848) | - | | | | | (10,848) |
| **Total non-current liabilities** | **(19,477)** | **(269)** | **(53,100)** | **-** | **(1,000)** | **-** | **(73,846)** |
| **Net Assets** | **66,310** | **6,838** | **-** | **-** | **(1,000)** | **6,838** | **65,310** |
| **Equity** | | | | | | | |
| Share capital | 208 | 1 | | | | (1) | 208 |
| Share premium account | 5,629 | 1,278 | | | | (1,278) | 5,629 |
| Share-based payment reserve | 467 | - | | | | - | 467 |
| Treasury shares | (3,109) | - | | | | - | (3,109) |
| Retained Earnings | 63,092 | 5,559 | | | (1,000) | 5,559 | 62,092 |
| **Equity attributable to owners of parent** | **66,287** | **6,838** | **-** | **-** | **(1,000)** | **6,838** | **65,287** |
| Non-controlling Interests | 23 | - | | | | | 23 |
| **Total Equity** | **66,310** | **6,838** | - | - | **(1,000)** | **6,838** | **65,310** |

**Notes**

1 The consolidated balance sheet of LSL Property Services plc as at 30th June 2011 has been extracted without adjustment from the unaudited consolidated group financial statements for the six months ended 30th June 2011.

2 The consolidated balance sheet of Marsh & Parsons as at 31st December 2011 has been extracted from the financial information in Part IV without material adjustment

3 Adjustment has been made to reflect the payment of the purchase consideration of £53.1m by an increase of financial liabilities by this amount.

4 The re-investment by Marsh & Parsons management of £8.0m of proceeds by way of issuance of £7.6m for the Loan Notes and £0.4m subscribed for the Growth Shares has been reflected by reducing amounts due to third parties within non current financial liabilities and increasing amounts due to Marsh & Parsons management within non current financial liabilities by the same amount.

5 Adjustment is made to reflect expenses of the transaction estimated at £1,000,000 by an increase of non current financial liabilities and deduction from retained earnings

6 In relation to this Acquisition, goodwill is recognised to the extent that the consideration tendered by the new controlling interest exceeds the net assets acquired. An adjustment has been made to reflect the goodwill arising on acquisition as follows:

| | | **£000** |
|---|---|---|
| Consideration on cash and debt free basis | | 53,100 |
| Less: net book value of net assets acquired derived from the financial information in Part IV | | |
| Net book amount of total assets of Marsh & Parsons Limited | 6,838 | |
| Adjustment to reflect cash & debt free | | |
| Less cash not acquired | (3,268) | |
| Add liabilities not acquired: | | |
| Amounts in creditors agreed between parties to be regarded as debt | 400 | |
| Tax payable regarded as debt | 906 | |
| Financial liabilities | 2,918 | |
| Net book amount of cash and debt free net assets acquired | | 7,794 |
| New goodwill arising on transaction | | 45,306 |

7 The unaudited pro forma financial information does not include any adjustments which would be required to re-state the assets and liabilities of Marsh & Parsons or the carrying amount of the Growth Shares to their fair values.

8 There are no material differences in the accounting polices applied by LSL and those applied by Marsh & Parsons in the presentation of their respective consolidated information as referred to above in notes 1 & 2.

9 No account has been taken on any trading of LSL after 30th June 2011 or of Marsh & Parsons after 31st December 2010

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The Directors
LSL Property Services plc
Newcastle House
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Newcastle Business Park
Newcastle upon Tyne
NE4 7YB

4th November 2011

Dear Sirs

We report on the pro forma financial information (the ''Pro Forma Financial Information'') set out in Part V of the Circular dated 4th November 2011, which has been prepared on the basis described in Part V, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented on the basis of the accounting policies adopted by LSL in preparing the financial statements for the period ended 30th June 2011. This report is required by Listing Rule 13.3.3R and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

**Responsibilities**

It is the responsibility of the Directors of LSL to prepare the Pro Forma Financial Information in accordance with Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as required by Listing Rule 13.3.3R as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of LSL.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of LSL.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of LSL.

Yours faithfully

Ernst & Young LLP

## PART VI

## ADDITIONAL INFORMATION

### 1. Responsibility:

The Directors, whose names appear on page 3 of this document, accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. LSL:

LSL was incorporated and registered with the Registrar of Companies in England and Wales on 27th April 2004 under the Companies Act 1985 as a private company limited by shares with the name Broomco (3455) Limited and with registered number 05114014. On 21st July 2004 LSL changed its name to Lending Solutions Limited. On 12th October 2006 LSL re-registered as a public company and changed its name to LSL Property Services plc.

Marsh & Parsons will, on Completion, become a subsidiary of LSL.

The principal legislation under which LSL operates is the Companies Act 2006 and the regulations made thereunder.

The liability of the members of LSL is limited.

LSL's registered office is Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, Tyne & Wear, NE4 7YB and its telephone number is 0191 233 4700. LSL's website is www.lslps.co.uk.

The registrars of LSL are Capita Registrars. The ISIN of the Ordinary Shares is GB00B1G5HX72.

### 3. Directors of LSL:

The following are the Directors and their principal functions are as follows:

- Steve Cooke (Group Finance Director);
- Simon David Embley (Chief Executive Officer);
- Paul Martin James Latham (Non-Executive Director);
- Roger John Matthews (Non-Executive Chairman);
- Mark Christopher Morris (Senior Independent Non-Executive Director);
- David Newnes (Executive Director – Estate Agency);
- Mark Andrew Pain (Non-Executive Director); and
- Alison Traversoni (Executive Director – Surveying).

### 4. Key Personnel of Marsh & Parsons:

**Peter Rollings** (49 years of age), Chief Executive of Marsh & Parsons. Peter commenced his career in property with London based agency, Lane Fox and Partners, in 1982. He joined Foxtons in 1985 as a Senior Negotiator. In 1989, he moved to the International Sales Division, Foxtons Propertysearch, selling UK developments to expatriates and foreign nationals worldwide. In 1991, he was appointed Manager of Foxtons' South Kensington office, following which he became Managing Director in 1997. Peter joined Marsh & Parsons in 2005.

**Liza-Jane Kelly** (37 years of age), Sales Director of Marsh & Parsons. Liza-Jane has over 18 years experience working in the property market. She started her property career in 1993, working with Sherry FitzGerald in Ireland and moved to London in 1999 to join Hamptons International. She went on to run their flagship branch in Knightsbridge and joined Marsh & Parsons in 2005 as 'Sales Director'.

**Michael Baulk** (68 years of age), Non Executive Chairman of Marsh & Parsons. Michael started his career with advertising agency Leo Burnett and subsequently joined Ogilvy & Mather, becoming a board director in 1975, Deputy Managing Director in 1979 and Managing Director in 1980. He joined Abbott Mead Vickers in September 1986 as Chief Executive and became Chairman and Group Chief Executive of AMV plc in January 1997. He retired from his role in 2006. Michael has also held previous directorships at both the Worldwide Board and European Board of BBDO and was a non executive director of Debenhams and Rank Hovis McDougall. In February 2007 Michael became Chairman of The Mill Group and a non executive director and consultant at Marsh & Parsons, advising on business strategy. He became Non Executive Chairman of Marsh & Parsons in April 2011.

**5. Directors' Remuneration and Benefits:**

The executive Directors have entered into service agreements with LSL, under which they are to remain employed on an ongoing basis, summaries of which are set out below:

| **Executive Director** | **Continuous Employment since** | **Notice period** | **Current salary** | **Related Bonuses 2010** | **Allowance & Benefits (excluding pension)** | **Pension** |
|---|---|---|---|---|---|---|
| Steve Cooke, Group Finance Director | 1st July 2010 | 9 months | £220,000 | £128,250 | £5,808 | £5,500 |
| Simon Embley, Chief Executive Officer | 31st August 1993 | 9 months | £250,000 | £243,750 | £11,466 | £12,500 |
| David Newnes, Executive Director | 14th January 1980 | 9 month | £140,000 | £79,625 | £5,321 | £4,083 |
| Alison Traversoni, Executive Director | 18th April 1988 | 9 months | £140,000 | £79,625 | £4,004 | £4,813 |

Each of the service agreements allows LSL to place the executive Directors on "garden leave" for a maximum of six months in the event the executive Director has given, or is given, notice to terminate their employment. Each of the agreements also provide for the relevant executive Director to receive medical insurance, life assurance and permanent health insurance as well as a discretionary bonus. The discretionary bonus payments to which the executive Directors will be entitled are set by the remuneration committee each year based on individual and LSL performance targets and the maximum bonus will be 100 per cent of salary. None of the executive Directors are entitled to any benefit on termination of his service agreement other than contractual benefits to be provided during any notice period.

Set out below is a summary of the non executive Director appointment arrangements together with their annual fee entitlements.

| **Non Executive Director** | **Date of Original Term** | **Date Current Term Commenced** | **Expected Expiry Date of Current Term** | **Fee** |
|---|---|---|---|---|
| Paul Latham | 1st June 2010 | 1st June 2010 | 31st May 2013 | £42,000[1] |
| Roger Matthews | 11th October 2006 | 21st November 2009 | 20th November 2012 | £100,000 |
| Mark Morris | 11th October 2006 | 21st November 2009 | 20th November 2012 | £45,000 |
| Mark Pain | 1st July 2009 | 1st July 2009 | 30th June 2012 | £43,000 |

1. Paul Latham's fee includes a £5,000 consultancy fee paid by e.surv Limited

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 immediately if the non-executive Director has:

- committed a material or persistent breach of the terms of his appointment;
- had a bankruptcy order made against him or compound with or entered into any voluntary arrangement with his creditors;
- been disqualified from holding office as a director;
- been removed as a Director by the Shareholders;
- failed to be reappointed as a Director for any reason; or
- been guilty of any act of dishonesty or serious misconduct or any conduct which, in the reasonable opinion of the Board, tends to bring him/her or LSL into disrepute.

The non-executive Directors are not entitled to participate in LSL's executive remuneration programmes or pensions arrangements.

## 6. Interests of Directors:

As at 3rd November 2011 (being the last practicable date prior to the publication of this document), the interests of the Directors and persons connected with them (within the meaning of section 252 of the Companies Act 2006), (all of which are beneficial save where otherwise stated) in the share capital of LSL which had been notified to LSL are as follows:

| Name | Ordinary Shares | % of issued share capital |
|---|---|---|
| Simon Embley | 10,050,500 | 9.65 |
| David Newnes | 5,569,250 | 5.35 |
| Paul Latham[1] | 3,902,061 | 3.75 |
| Alison Traversoni[2] | 616,742 | 0.59 |
| Roger Matthews[1] | 86,882 | 0.08 |
| Mark Morris | 53,972 | 0.05 |
| Steve Cooke | 40,000 | 0.04 |
| Mark Pain | Nil | Nil |

1. Paul Latham's and Roger Matthews' holding includes shares held by their family members.
2. Alison Traversoni's holding includes 4,284 shares held in LSL's 'Buy As You Earn' scheme. These shares were purchased by the EBT at the prevailing market value and are held for up to 5 years.

Save as set out above, none of the Directors have any interests in the share capital of LSL.

No loan or guarantee has been granted or provided by LSL to any Director or any person connected with him.

## 7. Significant shareholdings:

As at 3rd November 2011 being the latest practicable date prior to the date of this document, the Shareholders set out below have notified LSL of their interests in 3% or more of the issued ordinary shares:

| Institutions | Nature of holding | Number of Ordinary Shares | % of issued share capital |
|---|---|---|---|
| Harris Associates L P | Registered Holder | 17,971,460 | 17.25 |
| Kames Capital | Registered Holder | 7,304,892 | 7.01 |
| Sheffield Asset Management LLC | Registered Holder | 5,435,331 | 5.22 |
| Artemis Investment Management Ltd | Registered Holder | 4,997,231 | 4.80 |
| Blackrock Investment Management UK Ltd | Registered Holder | 3,956,353 | 3.80 |
| JP Morgan Asset Management UK | Registered Holder | 3,666,924 | 3.52 |
| Threadneedle Asset Management | Registered Holder | 3,606,915 | 3.46 |
| Aviva Investors | Registered Holder | 3,528,736 | 3.39 |
| Legal & General Group Plc | Registered Holder | 3,425,790 | 3.29 |
| TD Waterhouse Group Inc | Registered Holder | 3,288,330 | 3.16 |
| **Individuals (excluding executive directors)** | | | |
| Dean Fielding | Registered holder and beneficial holder | 5,230,000 | 5.02 |

## 8. Related Party Transactions

The are no related party transactions entered into by LSL which have occurred during the last 12 months.

## 9. Material Contracts:

### 9.1 LSL:

The following contracts which are or may be material, have been entered into by LSL otherwise than in the ordinary course of business in the two years immediately preceding the date of this document or contain any provision under which any member of the LSL Group has any obligation which is material as at the date of this document:

a. the Acquisition Agreement (which is summarised in Part III of this Circular);

b. the Investment Agreement (which is summarised in Part III of this Circular);

c. the Loan Note Instrument (which is summarised in Part III of this Circular);

d. the LJK Loan Note Instrument (which is summarised in Part III of this Circular);

e. the renewal and extension to March 2014 of its £75.0m revolving credit facility in June 2010 (which is summarised in LSL's annual report and accounts 2010 on page 84 and note 29 to the financial statements); and

f. the acquisition agreement in respect of the acquisition of Halifax Estate Agencies Limited (which is summarised in LSL's class 1 circular to Shareholders dated 12 November 2009).

**9.2 Marsh & Parsons:**

Marsh & Parsons has not entered into any contracts (not being contracts entered into in the ordinary course of business) within the last two years preceding the date of this Circular which are, or may be, material, or (regardless of when entered into) contain provisions under which Marsh & Parsons has an obligation or entitlement which is material to Marsh & Parsons as at the date of this Circular.

**10. Working capital:**

The Company is of the opinion that the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least 12 months following the date of publication of this document.

**11. Litigation:**

**11.1 LSL:**

Save as set out below, there are no governmental, legal or arbitration proceedings which have or may have had, during the 12 months preceding the date of this document, a significant effect on the financial position of LSL and/or the Group and so far as the Directors are aware, there are no such proceedings pending or threatened against LSL and/or the Group.

The only material matters or claims affecting LSL arise within its surveying division in relation to the potential exposure for errors on mortgage valuation and any resulting professional indemnity claims. Provision to cover the estimated financial exposure is included within LSL's annual accounts. The professional indemnity claim provision stood at £10.8m as at 31 December 2010 and relates to ongoing legal claims in the ordinary course of business and is the Directors' best estimate of the likely outcome of such claims.

**11.2 Marsh & Parsons:**

There are no governmental, legal or arbitration proceedings which have or may have had, during the 12 months preceding the date of this document, a significant effect on the financial position of Marsh & Parsons and/or the Marsh & Parsons Group and, so far as the Directors are aware, there are no such proceedings pending or threatened against Marsh & Parsons and/or the Marsh & Parsons Group.

**12. Significant Change:**

**12.1 LSL:**

There has been no significant change in the financial or trading position of LSL since 30$^{th}$ June 2011, being the date to which LSL's interim results were prepared.

**12.2 Marsh & Parsons:**

There has been no significant change in the financial or trading position of Marsh & Parsons since 31$^{st}$ December 2010, the date to which the financial information contained in Part IV of this document was made up.

**13. Consents:**

Ernst & Young LLP has given and not withdrawn its written consent to the inclusion in this document of its reports and the references to the reports and to its name in the form and contexts in which they are included.

**14. Documents available for inspection:**

Copies of the following documents may be inspected at the offices of DLA Piper UK LLP, Princes Exchange, Princes Square, Leeds, LS1 4BY during usual business hours on any weekday from the date of publication of this document (public holidays excepted) until the close of the General Meeting and will also be available at the General Meeting for at least 15 minutes before and during the General Meeting:

- the memorandum and articles of association of LSL;
- the audited accounts of LSL for the two financial years ended 31st December 2009 and 31st December 2010;
- the written consents referred to in paragraph 13 above;
- the Acquisition Agreement;
- the Investment Agreement;
- this Circular;
- the reports of Ernst & Young LLP set out in Part IV and V of this document;
- the Loan Note Instrument;
- the LJK Loan Note Instrument;
- the Norland Square Loan Note Instrument; and
- the trust deed relating to the 2011 EBT.

4th November 2011

## PART VII

## DOCUMENTS INCORPORATED BY REFERENCE

| Information incorporated by reference | Document reference | Page number(s) in this document |
|---|---|---|
| Material contract – Extension to credit facility agreement | LSL 2010 Annual Report and Accounts (page 84 and note 29) | Paragraph 9, Part VI (page 47) |
| Material contract – Acquisition agreement in respect of the acquisition of Halifax Estate Agencies Limited | LSL class 1 circular to Shareholder dated 12th November 2009 | Part VI (page 47) |
| Extract from LSL interim management statement for the period from 1st July 2011 | LSL interim management statement for the period from 1st July 2011 | Paragraph 8, Part I (page 8) |

## PART VIII

## DEFINITIONS

| | |
|---|---|
| **"2011 EBT"** | the 2011 LSL employee benefit trust, the key terms of which are summarised in Part III of this Circular |
| **"A Shares"** | the A ordinary shares of £0.001 each in Newco |
| **"Acquisition"** | the proposed acquisition by Newco of the entire issued share capital of Marsh & Parsons pursuant to the Acquisition Agreement and the Investment Agreement |
| **"Acquisition Agreement"** | the conditional share sale and purchase agreement in respect of the Acquisition dated 4th November 2011 between, *inter alia*, the Marsh & Parsons Shareholders and Newco relating to the Acquisition, the principal terms of which are described in Part III of this Circular |
| **"B1 Growth Shares"** | the B ordinary shares of £0.001 each in Newco, designated as B1 shares |
| **"B2 Growth Shares"** | the B ordinary shares of £0.001 each in Newco, designated as B2 shares |
| **"Board"** | the board of directors of LSL |
| **"C Growth Shares"** | the C ordinary shares of £0.001 each in Newco |
| **"Circular"** | this document |
| **"Completion"** | completion of the Transaction |
| **"Completion Consideration"** | together the initial consideration and the per diem consideration payable pursuant to the terms of the Acquisition Agreement, both of which are summarised in Part III of this Circular |
| **"Directors"** | the directors of LSL |
| **"Deferred Shares"** | the Deferred ordinary shares of £0.001 each in Newco |
| **"EBITDA"** | earnings before interest, taxes, depreciation and amortisation |
| **"Economic Value"** | entitlement to receive dividends if any are available and their share of the equity value of Newco should the business be sold or liquidated |
| **"Enlarged Group"** | the LSL Group following Completion |
| **"Ernst & Young"** | Ernst & Young LLP, reporting accountants and sponsor to LSL |
| **"Estate Agency Division"** | includes LSL's core estate agency, lettings, financial services, LPA fixed charge receiver and repossessions asset management businesses |
| **"Executive Directors"** | means the executive Directors |
| **"FSA"** | Financial Services Authority |
| **"FSMA"** | Financial Services and Markets Act 2000 |
| **"Form of Proxy"** | the form of proxy accompanying this Circular to be used by Shareholders in relation to the General Meeting |
| **"Foxtons"** | Foxtons Limited, a company registered in England and Wales with the number 01680058 |
| **"General Meeting"** | a general meeting of LSL to be held at 10 am on 22nd November 2011 for the purpose of approving the Resolutions |
| **"Growth Shares"** | means B1 Growth Shares, B2 Growth Shares and C Growth Shares in Newco |
| **"Hurdle Value"** | means £53.0m as at 31st December 2011 plus circa 10% per annum |
| **"IASB"** | International Accounting Standards Board |
| **"IFRIC"** | International Financial Reporting Interpretations Committee |
| **"IFRS"** | International Financial Reporting Standards |
| **"Investment Agreement"** | the conditional agreement to be entered into on Completion between (1) Marsh & Parsons Management Shareholders (2) LSL (3) Newco, the principle terms of which are summarised in Part III of this Circular |
| **"LIBOR"** | London Interbank Offered Rate |

| | |
|---|---|
| **"Listing Rules"** | the listing rules made by the UKLA for the purposes of part VI of FSMA |
| **"LJK Loan Notes"** | the £1.5m loan notes issued by Newco which carry 2% interest, constituted by the LJK Loan Note Instrument |
| **"LJK Loan Note Instrument"** | the loan note instrument to be entered into by Newco on Completion in relation to the LJK Loan Notes |
| **"Loan Note Holder"** | means a holder of Loan Notes |
| **"Loan Notes"** | the £6,145,773 12% fixed rate unsecured loan notes 2020, constituted by the Loan Note Instrument |
| **"Loan Note Instrument"** | the loan note instrument to be entered into by Newco on Completion in relation to the Loan Notes |
| **"London Stock Exchange"** | the London Stock Exchange plc |
| **"LPA"** | Law of Property Act 1925 |
| **"LSL" or "Company"** | LSL Property Services plc, a company registered in England and Wales with the number 05114014 |
| **"LSL Group" or "Group"** | LSL and its subsidiary companies (and Group Company means any one of them) |
| **"Marsh & Parsons"** | Marsh & Parsons Limited, a company registered in England and Wales, company number 05377981 |
| **"Marsh & Parsons Group"** | Marsh & Parsons and its subsidiary companies |
| **"Marsh & Parsons Management Shareholders"** | Peter Rollings and Liza-Jane Kelly |
| **"Marsh & Parsons Shareholders"** | Sherry FitzGerald, Peter Rollings and Liza-Jane Kelly |
| **"Newco"** | LSL PS Limited, a company registered in England and Wales with company number 07815928, being a wholly owned subsidiary of LSL, incorporated for the purpose of acquiring the entire issued share capital of Marsh & Parsons under the terms of the Acquisition Agreement |
| **"Newco Shares"** | shares in Newco, being A Shares and the Growth Shares |
| **"Norland Square Loan Notes"** | the loan notes issued by Newco which carry 2% interest, constituted by the Norland Square Loan Note Instrument |
| **"Norland Square Loan Note Instrument"** | the loan note instrument to be entered into by Newco on Completion in relation to the Norland Square Loan Notes |
| **"Notice of General Meeting"** | the notice of General Meeting set out at the end of this Circular |
| **"Ordinary Shares"** | 0.2p ordinary shares in LSL |
| **"Resolutions"** | a resolution to approve the Transaction and a resolution to establish the 2011 EBT to be proposed at the General Meeting, as set out in the notice of the General Meeting at the end of this Circular |
| **"Shareholders"** | the shareholders of LSL |
| **"Sherry FitzGerald"** | Sherry FitzGerald Holdings Limited, a company registered in the Republic of Ireland with company number 368520 |
| **"Surveying Division"** | LSL's surveying and valuations businesses |
| **"Transaction"** | entry into the Acquisition Agreement by Newco and Marsh & Parsons Shareholders and entry into the Investment Agreement by LSL and Marsh & Parsons Management Shareholders |
| **"UKLA"** | the UK Listing Authority |
| **"Unenforceable Agreement"** | as defined in Part III of this Circular |
| **"Vanstons"** | Vanstons Limited a company registered in England and Wales, company number 02277731 |

**LSL PROPERTY SERVICES PLC**
(Registered in England and Wales with registered number 5114014)

**NOTICE OF GENERAL MEETING**

**Notice is hereby given** that a general meeting of LSL Property Services plc ("**Company**") will be held at 10am on 22nd November 2011 at the offices of LSL, 1 Sun Street, London, EC2A 2EP for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

**ORDINARY RESOLUTION**

(1) That the proposed acquisition by the Company's wholly owned subsidiary, LSL PS Limited ("**Subsidiary**") of the entire issued share capital of Marsh & Parsons Limited, subject to the terms and conditions of (a) a conditional acquisition agreement dated 4th November 2011 made between (1) the Subsidiary and (2) Sherry FitzGerald Holdings Limited, Peter Rollings and Liza-Jane Kelly, as described in the circular to shareholders of the Company dated 4th November 2011, ("**Acquisition Agreement**"); and (b) an investment agreement between (1) the Company and (2) Peter Rollings and Liza-Jane Kelly and (3) the Subsidiary as described in the circular to shareholders of the Company dated 4th November 2011 ("**Investment Agreement**") be and are hereby approved and that the directors of the Company ("**Directors**") be and are hereby authorised to do all things that are, in the opinion of the Directors (or a duly authorised committee of them), necessary or desirable to give effect to and to complete the Acquisition Agreement and the Investment Agreement and the documents referred to in them with such modifications, amendments, variations or waivers as they (or any such committee) consider to be necessary or desirable provided such modifications, amendments, variations or waivers are not of a material nature; and

**ORDINARY RESOLUTION**

(2) Conditional upon the passing of ordinary resolution (1) above, that the establishment of the 2011 LSL Employee Benefit Trust for the benefit of all the employees of the Company and its subsidiaries (within the meaning of section 1159 Companies Act 2006) from time to time and the entering into of the deed of trust between (1) the Company and (2) Kleinwort Benson (Jersey) Trustees Limited to establish such employee benefit trust be and are hereby approved.

By order of the board

..........................................

Sapna B FitzGerald

Company Secretary

4th November 2011

**Registered office**: Newcastle House, Albany Court, Newcastle Business Park, Newcastle Upon Tyne, NE3 7YB.

**Notes:**

(1) The right to vote at the meeting is determined by reference to the register of members. Only those members registered in the register of members of the Company as at 10am 18th November 2011 (being 48 hours before the time for holding the meeting) or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 10am 18th November 2011 or, in the event that the meeting is adjourned, after 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(2) A member is entitled to appoint one or more persons as proxies to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. A form of proxy is enclosed and notes for completion can be found on the form and should be read carefully before it is completed. To be valid, the form of proxy must be completed, signed and sent to the offices of the Company's registrars, Capital Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, so as to arrive no later than 10am 18th November 2011 (or, in the event that the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting). A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy, you will need to complete a separate proxy form in relation to each appointment. You may photocopy the enclosed proxy form, indicating

clearly on each proxy form the name of the proxy you wish to appoint and the number of shares in relation to which the proxy is appointed. All forms must be signed and should be returned together in the same envelope. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The right of a member under section 324 of the Companies Act 2006 (''2006 Act'') to appoint a proxy does not apply to a person nominated to enjoy information rights under section 146 of the 2006 Act.

The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he or she so wishes.

The Company's issued share capital consists of 104,158,950 0.2p ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 3rd November 2011 are 104,158,950.

(4) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuers' agent (ID RA10) by the latest time for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(5) Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under section 146 of the 2006 Act (''nominee''):

(a) the nominee may have a right under an agreement between the nominee and the member by whom he was appointed, to be appointed, or to have someone else appointed, as a proxy for the meeting; or

(b) if the nominee does not have any such right or does not wish to exercise such right, the nominee may have a right under any such agreement to give instructions to the member as to the exercise of voting rights.

(6) Capita Registrars maintain the Company's share register. They also provide a telephone helpline service on 0871 664 0300 (calls cost 10p a minute plus network extras). If you have any queries about voting or about your shareholding, please contact Capita Registrars.

(7) Members have the right to ask questions at the meeting in accordance with section 319A of the 2006 Act.

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