LSL Property Services plc

Annual Report and Accounts **2008**

LSL Property Services plc Annual Report and Accounts **2008**

Contents

What we are:

LSL Property Services plc ("the Company") is a leading provider of residential property services, providing a broad range of services to its two key customer groups, who are mortgage lenders and private customers. Services to consumers include: estate agency, lettings, valuation, surveying, and advice on mortgages and non-investment insurance products. Services to mortgage lenders include: surveys and panel management services, asset management and property management services.

This Report covers the period from 1 January 2008 to 31 December 2008.

Forward Looking Statements:

This Report may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial condition, business performance and results of LSL. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of LSL including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, and the impact of tax or other legislation and other regulations in the UK. As a result LSL's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast. Information about the management of the principal risks and uncertainties facing LSL is set out in the Business Review & Directors' Report at page 7.

Highlights

- **Group**
  - Group Revenue down 26% to £161.8m (2007: £219.5m)
  - Underlying Group Operating Profit at £18.2m (2007: £ 37.2m). Loss before tax was £4.8m (2007: Profit before tax of £22.3m)
  - Operating costs reduced by 21% to £144.3m (2007: £183.4m)
  - Exceptional costs of £8.2m (2007: £1.4m) primarily reorganisation and restructuring costs necessary to reduce operating costs in line with lower activity levels
  - Adjusted Basic Earnings Per Share of 9.8p per share (2007: 23.4p per share). Basic loss per share was 3.3p per share (2007: Basic Earnings Per Share was 15.8p)
  - Management focus on reducing costs and conserving cash
  - No final dividend declared (2007: total dividend 6.86p)
  - Net cash inflow from operations of £3.2m (2007: £29.4m)
  - Net debt at the year end of £49.2m (2007: £48.7m)
  - Bank facility of £75.0m extended to July 2011

- **Surveying Performance**
  - Resilient surveying profits up 8% to £28.6m (2007: £26.4m), supported by the contract wins of 2007

- **Estate Agency & Financial Services Performance**
  - Estate agency and financial services results reflect the market reduction in housing transactions with Underlying Operating Losses of £8.4m (2007: Underlying Operating Profit £13.0m)
  - Strong growth in non exchange income, including lettings and repossessions, in our core estate agency brands up 17% to £29.2m (2007: £24.9m)

Chairman's Statement

Against a backdrop of unprecedented market conditions, we are pleased to report a satisfactory Underlying Operating Profit for the year ended 31 December 2008 of £18.2m (2007: £37.2m).

Market conditions for our estate agency business were extremely challenging. Transaction volumes in the housing market reached a record low of 512,000 transactions in 2008 (2007: 1,260,000) due to the well publicised issues in the banking sector which dramatically impacted the supply of credit, compounded by a reduction in buyer confidence and demand. The volumes of mortgage approvals, a principal driver of our surveying business, were supported by a strong remortgage market in the first half of 2008, but then fell significantly in the second half, as the availability of credit was further compounded by the escalation of the banking crisis.

The operating result has been underpinned by:

- **the diversified business model;**
- **the strength of the surveying business, which has continued to grow market share;**
- **the first full year impact of the major survey contract gains in 2007;**
- **the early and significant action taken by management to reduce the cost base, and conserve cash; and**
- **the continued focus on growing and developing new and counter-cyclical income streams such as lettings and repossessions asset management.**

Financial results

Group revenue has declined by 26% to £161.8m (2007: £219.5m) and the Underlying Operating Profit by 51% to £18.2m, reflecting a reduction in the Underlying Operating Profit margin from 16.9% to 11.3%.

On a segmental basis, the surveying division delivered an Underlying Operating Profit of £28.6m (2007: £26.4m). The estate agency and financial services business has been impacted in line with the market, with house sale exchanges down by over 50% on a like for like basis, resulting in a combined Underlying Operating Loss of £8.4m (2007: Underlying Operating Profit of £13.0m).

Exceptional costs of £8.2m (2007: £1.4m) were incurred in the financial year, reflecting the unprecedented market conditions and the need to restructure the business in line with lower activity levels. As a result operating costs were reduced by £39.1m. These exceptional costs primarily relate to restructuring costs and onerous lease provisions of £4.1m, additional provisions for claims in surveying amounting to £2.0m and a non cash impairment charge of £1.1m relating to financial services companies.

Net finance costs for the year were £3.9m (2007: £2.7m) resulting in a profit before tax and amortisation of £6.4m (2007: £32.4m). Amortisation of £10.1m (2007: £9.1m) was incurred, giving a loss before tax and adjustment of goodwill of £3.7m (2007: profit £23.3m). The loss after tax, exceptionals and amortisation was £3.3m (2007: profit £16.4m).

The Adjusted Basic Earnings Per Share was 9.8p (2007: 23.4p).

The Group generated net cash from operations of £3.2m (2007: £29.4m). The lower cash generation is due principally to the reduced profitability, the high level of exceptional costs incurred and a negative movement in working capital of £1.5m. Cash generation is expected to improve in 2009 due to lower exceptional costs and the non recurrence of the one off factors affecting cash flow in 2008. The Group is well capitalised, with net debt as at 31 December 2008 of £49.2m (2007: £48.7m).

The Group also took the opportunity to renegotiate its existing banking facility during the second half of 2008, securing an extension of the banking facility through to the middle of 2011 and more favourable financial covenants, providing headroom if the market deterioration continues on a longer term basis. As part of this arrangement, LSL reduced its revolving credit facility from £95.0m to £75.0m.

The unprecedented conditions in the housing market make it prudent to preserve cash until there is greater visibility over when market conditions will improve, accordingly the Board has decided not to recommend a final dividend. In the longer term the Board remains committed to our previously stated dividend policy.

Developments

Our surveying business continues to make progress, underpinned by the major contract gains achieved in 2007, with Barclays and C&G.

Despite a 40% decline in mortgage approvals, the surveying business has continued to provide service excellence and to grow market share. Overall the volume of jobs performed is down by 13% from 533,903 to 461,403. The result has been supported by the first full year of trading of Barnwoods which delivered turnover of £21.7m (2007: £11.4m).

Our estate agency business, commensurate with the challenging market conditions, is focused on delivering cost efficiencies and maximising all non exchange income. Lettings income from our core brands, Your Move and Reeds Rains, increased by 24%, to £15.8m and within those brands – despite a 59% fall in exchange income – overall revenue fell by only 39%.

As previously reported, we set up LSL Corporate Client Department (LSL CCD), our repossessions asset manager, at the start of the year, which has been successfully launched in the market securing a number of substantial new contracts. Despite investment during the first half of 2008 from a standing start, the business traded profitably in the second half of 2008 and is expected to contribute significantly to profits in 2009.

In addition, LSL CCD has invested in a corporate residential property management team focused on major landlords and aspiring multiple property landlords across the UK. This has successfully secured a number of key contracts during the year and as a result, it is expected to support the continued growth of lettings income in 2009. This is another example of the Group investing and growing its counter-cyclical income streams.

Main Board

There were a number of changes to the Board during 2008. Peter Hales resigned in June 2008 to concentrate on other business interests and the Board subsequently appointed Robert Sharpe to the Board as a non executive director and Chair of the Remuneration Committee in September 2008. However, following his appointment as CEO of West Bromwich Building Society, Robert felt unable to make the appropriate contribution or commitment to LSL going forward and resigned in December 2008. The process to recruit a replacement for Robert has commenced and a further announcement will be made in due course.

People

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

LSL operates two employee share schemes, a Save As You Earn and a Buy As You Earn, offering employees the opportunity to share in the future success of LSL.

A number of senior management employees, including the Executive Directors, currently own approximately 31% of LSL (2007: 34%). The interests of these senior managers/directors are closely aligned with the interests of other shareholders.

Trading conditions in 2008 have presented considerable challenges for our management and employees. There are less people now employed in our businesses, and those that remain are working harder and often for less tangible reward. The Board and I are particularly grateful for the input and motivation of our team.

Current Trading & Outlook

Given the current macroeconomic environment, the Board remains cautious on market conditions for 2009 and the timing of any recovery is uncertain. In 2009 to date, buyer enquiries and activity levels within our estate agency businesses have been encouraging, however this is balanced by the lack of supply in the mortgage market. The Group is well placed to benefit from the actions taken in 2008 with significantly reduced operating costs, strong growth in new income streams and a diversified customer base which will underpin surveying profitability.

Longer term the underlying macroeconomic conditions in the residential property market remain positive. Additionally, LSL has a track record of profitability and business development, both organically and through acquisition, and is well placed to benefit from the opportunities that will arise to grow market share in each of our business segments through the current cycle.

Roger Matthews
4 March 2009

Key Brands

Surveying

The Group provides a range of residential surveying and valuation services through three brands:

e.surv

One of the leading firms of chartered surveyors in the UK, providing services to a broad range of lenders.

Barnwoods

Founded in 2007 operating throughout the UK to provide services on an exclusive basis to C&G, part of the Lloyds Banking Group.

Chancellors Associates

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

Estate

The Group provides estate agency services including residential house sales, lettings and financial services through its principal brands:

Your Move

A network of 237 branches (made up of a combination of virtual, wholly owned and franchised branches) operating throughout the UK.

Reeds Rains

A northern based network of 126 branches (made up of wholly owned and franchised branches).

LSLi

This business was launched in early 2007 and is the holding company to 3 estate agency businesses based in the Home Counties which together have a network of 15 branches.

Agency

Financial Services

The Group arranges mortgages, remortgages, life assurance and general insurance in a variety of ways through the following brands:

Your Move

Through the provision of branch and call centre based financial consultants it provides financial services to its estate agency customers.

Reeds Rains

Through the provision of branch based financial consultants it provides financial services to its estate agency customers.

Linear

Through the provision of financial consultants based in the offices of independent estate agents and some of the Group and franchised branches.

First Complete

Through a call centre based operation it arranges general insurance products for customers referred by third parties, including members of the Group.

Other Services & Brands:

property-careers.com

property-careers.com is a national property training and marketing organisation specialising in the property and financial services sector, with a specific emphasis on the surveying, energy assessment, home inspection, estate agency and the mortgage business.

First Complete

First Complete trading as LSL Corporate Client Department (LSL CCD) operates a repossessions asset management business and a corporate residential property management business for multi property landlords.

Both the corporate residential property and repossessions asset management businesses were set up in 2008 and both provide services to a range of lenders throughout the UK.

Homefast Property Services

Homefast provides HIPS to members of the Group and to independent estate agents.

Business Review & Directors' Report

Introduction

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

Key Strengths

LSL has the following key strengths:

- It is one of the leading residential property services groups in the UK
- LSL has demonstrated some resilience against the cycles of the housing market, largely due to the performance of its surveying division
- The estate agency division has a network of 378 branches, making it the third largest estate agency business in the UK[1]
- The Group has low capital expenditure (2008: £1.0m) (2007: £2.4m) and in spite of the unprecedented market conditions has generated net cash inflow from operating activities of £3.2m (2007: £29.4m)
- The current Executive Directors have been with the Group since 2001 and have a track record of improving profitability as a result of organic growth and a number of successful acquisitions since 2004

1 Estate Agency News January 2009

Strategy

The Group's strategy is to grow long term profitability in the provision of residential property services and to continue to develop counter-cyclical income streams that will strengthen its ability to trade successfully through market downturns.

Profit growth will be achieved through surveying by developing strong relationships with lenders and maintaining service excellence in order to continue to drive market share. Profitable growth will be achieved in the estate agency and financial services divisions by continuing to provide a service proposition that recognises the customers' needs and maximises income across the value chain.

In addition, LSL continues to review opportunities for organic growth and during 2008 has successfully launched a corporate residential property management and a repossessions asset management department which are both expected to contribute significantly to future profits, and also deliver incremental value to the core agency businesses. Further, LSL will continue to assess acquisition opportunities in residential property services. It is however unlikely to complete any transactions until there is an improvement in the market conditions.

The market backdrop provides significant opportunities for market share growth for well capitalised and managed businesses across the estate agency, financial services and surveying segments. Overall, LSL is well placed to benefit from a recovery in the UK housing market.

Principal Risks & Uncertainties

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

- The continued volatility and uncertainty of the UK housing market. In particular, transaction volumes (both house purchase and remortgage), falling house prices and the availability of credit which will adversely affect the profitability and cash flow of all our key brands/businesses. Any significant further deterioration in market conditions could impact the financial covenants as contained within our banking facility.
- Liability for inaccurate professional services advice to clients (eg inaccurate valuations). This risk has increased as a result of an increased level of repossessions and falling house prices which are a result of the current unprecedented market conditions. Associated with this risk is LSL's ability to maintain appropriate risk management arrangements including insurance.
- Loss of key surveying clients or significant reduction in volumes, either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery.
- The reputation and profitability of LSL could be adversely affected by the actions of one or a limited number of employees or franchisees.
- Failure or interruptions of information technology services on which the Group is reliant for operational performance and financial information.
- The development of alternative products and services in competition with traditional estate agency and surveying services, such as supermarket property websites and Automated Valuation Models.
- Changes in legislation or regulation may impact on business results or the UK housing market in general.
- Loss of any licences or permission necessary for the performance of the Group's businesses.

Further information relating to the management of these risks and uncertainties are set out in the Corporate Governance Review (Internal Controls) of the Annual Report & Accounts 2008.

Relationships

The Corporate Social Responsibility (CSR) statement details the arrangements for all Group companies in relation to: environmental matters; Group employees; and can be found at pages 29 to 30 of this Report.

Other than our shareholders, the Group's performance and value are influenced by other stakeholders, principally our customers, suppliers, employees government and our strategic partners.

The Group's approach with all these parties is founded on the principles of open and honest dialogue based on a mutual understanding of needs and objectives. For example:

- Lender relationships are managed via dedicated account managers.
- Employees are managed and consulted both on an individual basis and via representative groups.
- Group companies participate in relevant trade associations and industry groups, such as RICS, the Association of Mortgage Intermediaries, the National Association of Estate Agents, the Association of Residential Lettings Agents and the Ombudsman for Estate Agents, because these give us genuine access to customer views and decision makers in government and other regulatory bodies.

Further, the Group aims to build partnerships with the communities in which it operates and to offer support in addition to providing employment and training, using local services and suppliers where possible and paying taxes.

Environmental Matters

All Group companies are committed to assessing and managing the environmental impact of their operations by taking part in energy efficient practices so that it can be an active participant in the sustainable society, for example electronic communications and record keeping is encouraged in place of less environmentally friendly methods.

For further information on other environmental issues and to read LSL's CSR statement please see pages 29 to 30 of this Report.

Surveying Division

The surveying businesses have performed well in 2008 against a difficult market backdrop.

Key Performance Indicators:	2008	2007	
Surveying Division	£m	£m	% Change
Turnover	**80.0**	89.9	-11%
Expenditure	**(51.4)**	(63.5)	-19%
Underlying Operating Profit	**28.6**	26.4	8%
Margin	**36%**	29%	
Total Number of Jobs Performed	**461,403**	533,093	-13%

Surveying – Key Strengths

- The UK's largest distributor of valuations providing greater operational flexibility than competitors — even in a market downturn
- Robust customer relationships with the leading lending institutions
- Some proven resilience of profits to variable residential property market conditions
- Proven systems that drive operational efficiencies
- Strong customer ethos with quick turnaround times for valuations

Surveying Division Performance

Despite extremely challenging conditions, particularly in the second half of 2008, the surveying division performed well. Overall mortgage approvals were down by 40%, whereas the volume of jobs performed within the Group fell by 13%, indicating continued market share gains.

While e.surv's volumes were affected by the difficult market conditions and the withdrawal from the market of some key lenders, its contribution to the division's Underlying Operating Profit was £15.8m (2007: £20.3m). Further, the volumes of the division were underpinned by the contracts gained in mid 2007 and in particular by the full year contribution of Barnwoods, which delivered turnover of £21.7m (2007: £11.4m).

Overall, turnover for the division has reduced by 11%. However, as a result of a continued focus on driving efficiency improvements and the profit contribution of Barnwoods, the overall margin has improved from 29% to 36%, giving an Underlying Operating Profit for 2008 of £28.6m (2007: £26.4m).

In line with the deterioration in the UK housing market, the Board has decided that it is appropriate to make a one off exceptional increase in its provisions of £2.0m to take account of the increase in the number of recovery claims made and likely to be made for inaccurate valuations.

Lender Relationships & Service Quality

LSL's surveying division has panel management arrangements with a significant number of lenders. A number of these arrangements are exclusive and they will involve the servicing and distribution of valuation instructions to these lenders' own teams of employed surveyors and/or other valuation providers. LSL has strong relationships with these lenders.

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

Competition

LSL's major competitors in the surveying market are principally other national estate agency chains which provide panel management services, such as Countrywide and Connells. In addition, a number of lenders have their own in-house workforce, such as Abbey National and Alliance & Leicester. Further, while Automated Valuation Models (AVMs) are a competitor to traditional valuation methods, their use in the current market is under careful review by lenders.

Hometrack Data Systems

LSL owns 14.2% of Hometrack, the leading provider of AVMs. This investment was made in 2003 and provides LSL with an insight into the AVM market. A dividend of £0.3m was received in 2008 (2007: £0.4m).

Estate Agency Division

The estate agency business has performed satisfactorily in the context of unprecedented market conditions.

Key Performance Indicators:

Estate Agency Your Move & Reeds Rains*	2008 £m	2007 £m	% Change
Exchange Fees	**28.6**	69.3	-59%
Other income	**29.2**	24.9	17%
Turnover	**57.8**	94.2	-39%
Expenditure	**(64.0)**	(80.5)	-20%
Underlying Operating (Loss)/Profit	**(6.2)**	13.7	
Margin	**-10.7%**	14.5%	
KPIs			
Exchange Units	**13,683**	31,277	-56%
Average Fee	**£2,089**	£2,214	-6%
Other Brands^			
Underlying Operating (Loss)/Profit	**(1.1)**	–	
Total Estate Agency			
Turnover	**66.7**	107.1	-38%
Expenditure	**(74.0)**	(93.4)	-21%
Underlying Operating (Loss)/Profit	**(7.3)**	13.7	
Margin	**-10.9%**	12.8%	

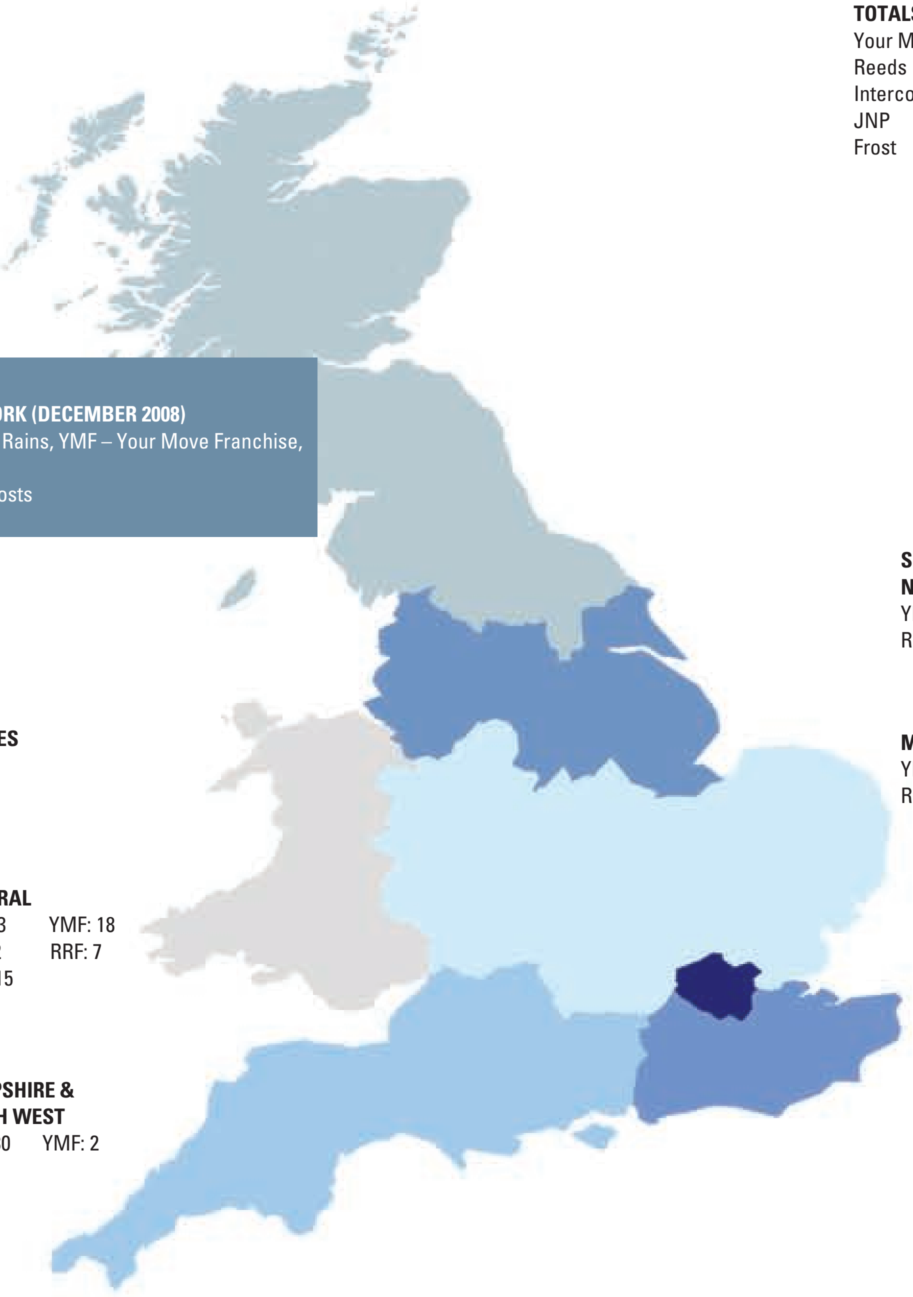
* within Your Move & Reeds Rains turnover, expenditure and profit intra group transactions have been included

^ Other brands include Homefast, property-careers.com, LSLi subsidiaries (David Frost Estate Agents, JNP Estate Agents and Intercounty) and First Complete.

TOTALS	
Your Move	237 Total
Reeds Rains	126 Total
Intercounty	8 Total
JNP	4 Total
Frost	3 Total

COMBINED BRANCH NETWORK (DECEMBER 2008)

YM – Your Move, RR – Reeds Rains, YMF – Your Move Franchise,
RRF – Reeds Rains Franchise
LSLi – Intercounty + JNP + Frosts



SCOTLAND & NORTH EAST
YM: 35 YMF: 20
RR: 26 RRF: 2

WALES
RR: 4

MIDLANDS
YM: 21 YMF: 3
RR: 36 RRF: 9

CENTRAL
YM: 33 YMF: 18
RR: 42 RRF: 7
LSLi: 15

LONDON
YM: 12 YMF: 10

HAMPSHIRE & SOUTH WEST
YM: 30 YMF: 2

KENT & SUSSEX
YM: 48 YMF: 5

Estate Agency — Competitive Strengths & Growth Opportunities

- Strong established high street brands and, with 378 branches, LSL is ranked third largest in the UK by Estate Agency News (January 2009)
- Strong and growing counter-cyclical income streams, such as the generation of lettings and repossession instructions
- Highly profitable business in normal market conditions
- Technically advanced proprietary browser based IT systems (including Preview and Quicklet) with one IT solution across all brands providing a customer relationship management ability to sell income streams on an automated basis
- Successful franchise model
- www.your-move.co.uk—the number 1 UK estate agency branded website by Hitwise (February 2009)
- Growing repossessions asset management business with a strong service ethos

Estate Agency Performance

Transaction volumes for house purchase were at an unprecedented low in 2008 with mortgage approvals for house purchase falling by 59% from 1.26m in 2007 to 0.51m in 2008. As a result, the exchange income of Your Move and Reeds Rains, our main agency brands fell by 59%. This was partially offset by a growth in other income (principally lettings and HIPS) of 17%. Overall turnover within Your Move and Reeds Rains was down by 39% from £94.2m to £57.8m.

In the context of the market there has been a significant focus on driving efficiency improvements and action was taken early in 2008 to reduce the cost base in line with anticipated lower activity levels. An overall cost reduction of £16.5m has been achieved in Your Move and Reeds Rains. Despite this, the core agency brands had an Underlying Operating Loss of £6.2m in 2008 (2007: Underlying Operating Profit £13.7m).

Estate Agency Revenue

The main drivers of estate agency revenue are:

- Exchange fee income, which is linked to housing transaction volumes, prices and commission rates
- Franchising income, which is generated from initial deposits on new openings, a monthly service fee of 8% of turnover, plus charges for the provision of IT services
- Lettings income, which is generated from providing a range of services to landlords and tenants. Branch based lettings services have been expanded across the Group and as at 31 December 2008 lettings services were provided from 378 offices across the LSL network (figure includes franchised branches) (2007: 340). Income growth was experienced in 2008 and further growth is expected in 2009
- Additional commission income generated through the sale of general insurance, conveyancing services, HIPS, Home Reports, utilities and other products and services to clients of the branch network

Service Quality

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

Competition

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

Developing Businesses

The Estate Agency division continues to develop new businesses, including the following:

First Complete

As previously reported, we set up LSL Corporate Client Department (a trading name of First Complete), our repossessions asset manager; at the start of 2008, which has been successfully launched in the market securing a number of substantial new contracts. Despite investment during the first half of 2008 from a standing start, the business traded profitably in the second half of 2008 and is expected to contribute significantly to profits in 2009.

In addition LSL CCD has invested in a corporate residential property management team focused on major landlords and aspiring multiple property landlords across the UK, and which has successfully secured a number of key contracts during the year. As a result, it is expected to support the continued growth of lettings income across the estate agency brands in 2009. This is another example of the Group investing and growing its counter-cyclical income streams.

property-careers.com

property-careers.com is a national property training and marketing organisation specialising in the property and financial services sector. It is also regarded as a leading provider of training services to individuals wishing to become Home Inspectors and Domestic Energy Assessors. During 2008 it developed and launched the Inventory Portal, enabling individuals to obtain accreditation from the Licensed Inventory Provider Scheme. In addition, property-careers.com also provides panel management services to HIP suppliers in relation to the supply of Energy Performance Certificates and the management of Domestic Energy Assessors, trading as the energy-portal.

LSLi

This business was launched in early 2007 and is the primary vehicle through which LSL has pursued its strategy to acquire small to medium independent Estate Agency businesses. At 31 December 2008 it operated a network of 15 branches (2007: 16 branches) based in the Home Counties under the following strong local brands:

- ICIEA Limited, trading as "Intercounty" (8 branches) (2007: 9 branches)
- David Frost Estate Agents Limited, trading as "Frosts" (3 branches) (2007: 3 branches)
- JNP (Estate Agents) Limited, trading as "The JNP Partnership" (4 branches) (2007: 4 branches)

The Board does not anticipate making any further acquisitions in the estate agency sector until market conditions improve.

Financial Services Division

Key Performance Indicators:

	2008 £m	2007 £m	% Change
Financial Services			
Turnover	15.0	22.5	-34%
Expenditure	(16.2)	(23.4)	-31%
Underlying Operating Loss	(1.2)	(0.8)	-50%
Financial Consultant Numbers	179	328	-45%
Mortgages applications value	£1.63bn	£3.31bn	-51%

Financial Services — Competitive Strengths & Growth Opportunities

- One of the UK's largest estate agency brokers, providing lending of in excess of £1.63bn (2007: £3.31bn)
- Strong relationships with a broad panel of lenders
- A significant customer database for the sale of products and services available via the Group (e.g. financial services products, including the operation of remortgage clubs)
- A strong customer offering providing mortgages from a broad range of lenders, life and mortgage protection insurance products, and general insurance products

Financial Services Performance

Transaction volumes in the mortgage market have been significantly affected by market conditions. As a result, turnover fell by 34% and was impacted by the well reported funding issues in the general mortgage market. Overall mortgage approvals fell by 40% to 1,980,000 (2007: 3,292,000) according to the Bank of England (January 2009).

Overall the cost base was reduced by 31% and as a result the Underlying Operating Loss increased from £0.8m to £1.2m

Regulation

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

First Complete

YOUR MOVE

Reeds Rains
The Estate Agent

linear

Financial Review

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

Income statement

Revenue

Revenue fell by 26% in the year ended 31 December 2008 from £219.5m to £161.8m. This was a reflection of market conditions.

Operating Expenses excluding exceptional costs, amortisation and share based payments

Operating expenses were reduced by £39.1m, or approximately 21%, from £183.4m to £144.3m. The principal saving, which amounted to £31.1m, were emoluments. The cost reductions were made in response to unprecedented market conditions and were across all business segments.

Underlying Operating Profit

Underlying Operating Profit was £18.2m (2007: £37.2m) with the Underlying Operating Profit margin down 16.9% to 11.3%.

Exceptional Costs

Exceptional costs in the year ended 31 December 2008 amounted to £8.2m (2007: £1.4m) (of which operating exceptional costs were £7.7m (2007: £1.4m) and finance exceptional costs were £0.4m (2007: nil)) due to the unprecedented market conditions.

These were split as follows:

a. onerous lease provisions as a result of branch closures £1.7m;

b. redundancy costs £2.4m;

c. fees for renegotiation of the bank facility £0.4m;

d. aborted deal and project costs £0.2m;

e. increase in provisions of £2.0m to take account of the increase in numbers of recovery claims made and likely to be made for inaccurate valuations due to the deterioration in the UK housing market; and

f. Linear goodwill and brand non cash impairment charge £1.1m

Net Financial Costs

Net financial costs amounted to £3.9m (2007: £2.7m). The Net financial costs for 2008 included investment income from Hometrack of £0.3m (2007: £0.4m).

Taxation

The effective rate of corporation tax after excluding the effect of the deferred tax adjustment to goodwill for the year is 16.7% (2007: 29.5%).

Adjusted Basic Earnings Per Share

The Adjusted Basic Earnings Per Share (as calculated in note 10 of the Financial Statement) is 9.8p (2007: 23.4p). The directors consider this provides a better and more consistent indicator of the Group's underlying performance.

Balance Sheet

Capital Expenditure

Total capital expenditure in the year amounted to £1.0m (2007: £2.4m). The capital expenditure predominantly comprised fixtures, fittings and computer equipment.

Financial Structure

As at 31 December 2008 Net Debt was £49.2m (2007: £48.7m). LSL has a £75.0m revolving credit facility in place (2007: £95.0m).

Cash Flow

The business is cash generative and has low capital expenditure requirements.

The Group generated net cash from operations of £3.2m (2007: £29.4m). The lower cash generation is due principally to the reduced profitability, the high level of exceptional costs incurred and a negative movement in working capital of £1.5m. As reported in the first half year, the working capital outflow is due to one off factors including a reduction in outsourced surveys and the introduction of HIPS for which the Group initially provided short term credit.

Cash generation is expected to improve in 2009 due to lower exceptional costs and the non recurrence of the one off factors affecting cash flow in 2008. The Group is well capitalised with net debt as at 31 December 2008 of £49.2m (2007: £48.7m).

Net Assets

The net assets as at 31 December 2008 were £33.7m (2007: £42.9m).

Treasury & Risk Management

LSL has an active debt management policy and has purchased an interest rate cap, which expires in August 2009 and restricts LIBOR to 6% for £30.0m of debt. LSL does not hold or issue derivatives or other financial instruments for trading purposes.

International Financial Reporting Standards (IFRS)

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

Simon Embley
Group Chief Executive Officer

Dean Fielding
Group Finance Director

Director Profiles

Paul Latham

Deputy Group Chief Executive Officer of LSL and responsible for the Group's surveying division, aged 53. Paul was appointed as Managing Director of e.surv in 2000. At the time of the management buy-out in 2004, Paul became the Deputy Chief Executive Officer of LSL. Paul has overall responsibility for the performance of the Group's surveying division. Since 2000 he has overseen the development of the surveying divisions into the UK's largest distributor of residential valuations. Paul holds an honours degree from the University of Reading and is a qualified Chartered Surveyor and is currently the Chair of the Residential Faculty of The Royal Institution of Chartered Surveyors. He is also recognised by customers as a leading exponent of technology solutions to provide real estate valuation advice to financial institutions.

Mark Morris

Senior Independent non executive director, aged 48. Mark was appointed as a non executive director of the Board in October 2006 and as the Board's Senior Independent Director in October 2007. Mark is a Chartered Accountant and is currently non executive director and audit committee Chairman at Maxima Holdings plc and Homeserve plc. Mark previously worked at Sytner Group as Finance Director and Managing Director from 1995 to 2005 including the period during which Sytner was listed on the London Stock Exchange, and was responsible for their extensive acquisition programme. Prior to this Mark spent 12 years with PricewaterhouseCoopers in audit and corporate finance.

Roger Matthews

Non Executive Chairman, aged 54. Roger was appointed to the Board on 11 October 2006. Roger is also Chairman of MITIE Group plc and is a Trustee of Cancer Research UK. Previously Non Executive Chairman of Land of Leather Holdings plc and Sainsbury's Bank, Group Finance Director of J.Sainsbury plc, Managing Director and Finance Director of Compass Group plc and worked for Grand Metropolitan plc, Cadbury Schweppes plc and PricewaterhouseCoopers. He is a Chartered Accountant.

Dean Fielding

Group Finance Director aged 43. Dean has been with LSL since 1995 when he joined GA Property Services, the previous name under which Your Move operated, as a management accountant in residential sales. In March 2002 Dean became the Finance Director of Your Move and e.surv, two of LSL's subsidiaries. Dean became Group Finance Director at the time of the management buy-out in 2004. Dean is responsible for the financial strategy and ensuring that LSL maintains strong systems and internal controls. Dean is a Chartered Accountant.

Simon Embley

Group Chief Executive Officer, aged 48. Simon became the Chief Executive Officer of the Board at the time of the management buy-out of e.surv and Your Move from Norwich Union in 2004. Simon is responsible for the strategic direction of LSL. From 2001 until the management buy-out, Simon was Managing Director of Your Move, where he oversaw its turnaround from a heavily loss-making business to the successful business it is today. His previous experience includes establishing Norwich Union's pensions business in Poland for eighteen months and in 2000 he was a director of Norwich Union Wealth Management.

Mark Warburton

Independent non executive director, aged 58. Mark was appointed as a non executive director of the Board in October 2006, having been a non executive director of Reeds Rains since September 2003 and Your Move since April 2006. Mark has 27 years' experience as a solicitor and wide practical experience in corporate finance and banking. Mark is currently general manager, legal counsel and Company Secretary to an AIM quoted company, Cyprotex Plc, a position which he has held since 2003. From November 1999 to January 2002 Mark was a partner at Addleshaw Booth & Co. He holds a number of positions in private companies in property construction, self storage and sports equipment businesses.

Principal Activities

The Company is the holding company for a number of residential property services related businesses. The Group's principal activities are estate agency, property management, surveying and financial services.

Business Review & Development

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

Annual General Meeting

The AGM will be held at the offices of Buchanan Communications, 45 Moorfields, London, EC2Y 9AE on 22 April starting at 2.30pm.

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

Results & Dividends

The Business Review and Financial Statements set out the results of LSL.

Due to unprecedented market conditions, no interim dividend has been paid in 2008. As we explained in our June 2008 Interim Results, announced in August 2008, the significant deterioration in the housing market makes it prudent to conserve cash until there is greater visibility over when market conditions are likely to improve.

With the above in mind, the Board has considered the payment of a full year dividend and decided against recommending payment of one for 2008. However, the Board remains committed to its previously stated dividend policy, namely that the directors intend to adopt a dividend policy which reflects the cash-generative nature of the businesses, the long term earnings potential of the Group and the opportunities to invest in organic growth and growth through selective acquisitions, once market conditions improve.

Employees

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

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

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

Financial Instruments

The Business Review sets out LSL's strategies and objectives relating to treasury and risk management. Details of the financial instruments are set out in note 28 of the Accounts.

Directors

The current directors are listed with their biographies in Directors' Profiles. Following the resignation of Peter Hales in June 2008, LSL appointed Robert Sharpe to the Board as a non executive director and Chair of the Remuneration Committee in September 2008. In December 2008, Robert resigned following his appointment as CEO of West Bromwich Building Society, as he felt unable to make the appropriate contribution or commitment going forward. The process to recruit a replacement for Robert commenced in December 2008. Full details of director appointments and resignations are also detailed at pages 25 to 26 in the Directors' Remuneration Report.

In accordance with the Articles of Association, Roger Matthews and Paul Latham will retire at the AGM and, being eligible, intend to stand for re-election. The biographical details for all directors including Roger Matthews, Paul Latham and Mark Warburton are set out on page 16 of this Report. During the 2008 board effectiveness review, the performance of Roger Matthews and Paul Latham was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

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

Directors' Interests

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

NAME	shares at 01/01/2008	% of Issued share capital	shares at 31/12/2008	% of Issued share capital
Simon Embley	7,884,074	7.57%	9,307,074	8.94%
Dean Fielding	6,111,876	5.87%	6,111,876	5.87%
Paul Latham	6,909,167*	6.63%*	6,909,167*	6.63%*
Roger Matthews	86,882	0.08%	86,882	0.08%
Mark Morris	27,283	0.03%	27,283	0.03%
Mark Warburton	7,438	0.01%	7,438	0.01%

*Paul Latham's holding includes shares acquired by his children during 2007.

In addition to the above, Simon Embley and Paul Latham acquired an option in April 2008 to acquire 8,311 ordinary shares each in 2011 at a price of £1.15 per share as part of LSL's 2008 Save As You Earn scheme (SAYE). During the year, Simon Embley cancelled his participation in the 2007 SAYE. Details of these have been disclosed in the Directors' Remuneration Report at page 26 of this Report.

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

There have been no changes in directors' shareholdings between the period ended 31 December 2008 and the date of this Report.

The Board has during the year put in place arrangements for the management and recording of conflicts in line with its policy. Further, during the year, no director was materially interested in any contract that is or was significant to the business of the Group or any subsidiary undertaking.

Auditors

Ernst & Young LLP are the external auditors of the Group and their reappointment to this role and the authority for their remuneration to be determined by the directors will be proposed at the AGM.

Details of LSL's policy designed to safeguard the independence and objectivity of the external auditors are included in the Corporate Governance section of this Report.

Share Capital

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

Details of share capital are set out in note 23 of the Accounts. There have been no changes to the share capital during 2008. A renewal of the authority for the directors to allot unissued ordinary shares and a renewal of their power to dis-apply statutory pre-emption rights will be proposed at the AGM.

Shareholders

As at 2 March 2009, the shareholders set out below have notified the Company of their interest in 3% or more of the issued ordinary shares:

	Nature of holding	Number of 0.2 pence ordinary shares	% of issued shares
Institutions			
Mortstan Nominees Limited	Registered Holder	17,420,374	16.72%
State Street Nominees Limited	Registered Holder	16,634,018	15.97%
BPE General Partner Limited	Beneficial Owner	9,516,978	9.14%
Barclays Industrial Investment	Beneficial Owner	5,273,586	5.06%
Individuals (excluding executive directors)			
David Newnes	Registered Holder & Beneficial Owner	5,581,171	5.36%

Employee Share Schemes

LSL has appointed Capita Trustees Limited (Trustees) to operate the Company's Employee Share Scheme (Trust) which was established prior to the Company's flotation in 2006.

The Trustees operate both the Company's Employee Share Incentive Plan (Buy As You Earn) and Save As You Earn Plan.

The Trust is able to acquire and to hold shares to satisfy options or awards granted under any discretionary share option scheme or long term incentive arrangement operated by the Company. Details of the shares acquired by the Trust are set out in note 24 of the Accounts.

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

Charitable & Political Donations

LSL companies in total made charitable donations of £17,841 (2007: £5,647) during the financial period. No political contributions were made during the financial period.

Creditors & Supplier Payment Policy

LSL's normal terms are to make payment in accordance with suppliers' terms of trade or within 45 days (2007: 30 days) from the receipt of services or invoices subject to satisfactory performance by the supplier. At 31 December 2008, the Company had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts. For further details on LSL's policy statement regarding the management of suppliers, please see the CSR statement on pages 29 to 30 of this Report.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 6 to 13. The financial position of the Group, its cash flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review on page 14 to 15. Details of the Group's borrowing facilities are set out in note 20 to the financial statements. Note 28 to the financial statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed at pages 7 and 24 of this Report.

As explained in note 20 to the financial statements, the Group meets its day to day working capital requirements through a revolving credit facility, which is due for renewal in July 2010 but can be extended at that date until July 2011 at the option of the Group. As stated in note 18, as at 31 December 2008 the Group had available £27.9m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the terms of its current facility.

The directors have reviewed the Group's forecasts and budgets, which have been tested against various "what if" scenarios. The directors also examined the Group's financial adaptability as part of that review and concluded that, should it be necessary, the Group would be able to respond to a reasonably foreseeable deterioration in market conditions by making further reductions to the cost base, as it was able to achieve in 2008.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of Information to Auditors

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

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

Directors' Qualifying Third Party Indemnity Provisions

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

Additional information for shareholders

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

Share Capital

At 31 December 2008, the Company's issued share capital comprised 104,158,950 0.2p Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of 0.2p each.

Other than the lock in agreements entered into with two members of the senior management team which expire in May 2010, the Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Ordinary shares

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

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

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

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

Company share schemes

The Company's Employee Benefit Trust holds 1.29% of the issued share capital of the Company in trust for the benefit of employees of the Group and their dependents. The voting rights in relation to these shares are exercised by the Trustees.

Substantial Shareholdings

These details are set out at page 19 of this Report.

Change of control

Subsidiaries of the Company are party to agreements which take effect, alter or terminate upon a change of control of the company following a takeover bid.

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

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

Directors' responsibility statement

Each of the directors listed on page 16 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair review of the assets, liabilities, financial position and results of the Company and its subsidiaries included in the consolidation taken as a whole, and
- the Directors' Report and the Business Review include a fair review of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary

4 March 2009

Combined Code

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

During 2008, the Company complied with the provisions of the Combined Code in all respects.

The Board

The Board has six members and it comprises the Chairman, three executive directors and two independent non executive directors. The directors are listed with their biographies in Directors' Profiles. There is a clear division of responsibilities between the Chairman whose key responsibility is the effective running of the Board, and the Chief Executive, whose key responsibility is the running of the business.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Combined Code; his only other significant commitment was Chairman of Land of Leather plc. Since then he has also become a Non Executive Chairman of MITIE Group plc and is no longer Chairman of Land of Leather plc.

During the year the directors undertook an evaluation of the performance of the Board. This included an evaluation of the Board, the Board committees and of individual directors to ensure that the directors remain individually and collectively effective. The evaluation process involved discussions between each director and the Chairman and meetings of the Board and the non executive directors (including discussions without the Chairman present to appraise his performance). The non executive directors evaluate the Chairman's performance, after taking into account the views of the executive directors. No significant issues requiring action arose from these evaluations.

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

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

During 2008 the Board met 12 times and the attendance of each of the directors at these meetings as a director or a committee member is set out below. During 2009 the Board is scheduled to meet 11 times and additional meetings will be held as required.

During 2008 the non executive directors and the Chairman collectively met twice without the executive directors being present and it is the intention that this will be repeated in 2009.

Director	Board	Audit Committee	Remuneration Committee	Nominations Committee
Roger Matthews	12	–	3	2
Simon Embley	12	–	–	–
Paul Latham	12	–	–	–
Dean Fielding	10	–	–	–
Mark Morris	12	4	3	2
Peter Hales*	5	1	1	–
Mark Warburton	12	4	3	2
Robert Sharpe**	1	–	1	–

* Peter Hales resigned on 1 June 2008

** Robert Sharpe was appointed on 1 September 2008 and resigned on 1 December 2008

In accordance with the Articles of Association, Roger Matthews and Paul Latham will retire at the AGM, and, being eligible, are intending to stand for re-election at the meeting. At each subsequent AGM, all directors appointed since the previous AGM and circa one-third of the remaining directors, including any director who has not been elected or re-elected at either of the two preceding AGMs, will retire by rotation and may seek re-election. The Board can appoint a director outside of a general meeting but anyone so appointed must be elected by an ordinary resolution at the next general meeting.

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

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

Board Committees

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

Audit Committee

The Audit Committee is chaired by Mark Morris and its other members are Roger Matthews and Mark Warburton. Peter Hales and Robert Sharpe were members during their period as directors. Roger Matthews was appointed on 1 January 2009. The Board is satisfied that Mark Morris has recent and relevant financial experience as is required by the Combined Code.

The Committee met four times in 2008 and is expected to meet four times in 2009. LSL's internal and external auditors, the Chief Executive and the Group Finance Director may attend and speak at meetings. The Audit Committee met with the auditors without the executive directors being present twice during 2008.

The duties of the Audit Committee are governed by its terms of reference, which were reviewed during the year, and include monitoring the integrity of LSL's financial statements, reviewing the effectiveness of the internal control and risk management systems, reviewing procedures for handling any internal allegations, overseeing the internal audit function, overseeing the relationship with the external auditor, and reviewing the scope and results of audits. The Committee has an established programme of work to ensure that each of its responsibilities is covered adequately during the year. Two of its meetings are focused primarily on external reporting and external audit, and two on risk, internal control and internal audit. Due to the challenging market conditions, the areas of particular focus during the year have been evaluating existing whistleblowing procedures, raising fraud awareness and reviewing valuation controls within the surveying division.

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

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

The split between audit and non audit fees for 2008 appears at note 9 to the Accounts. The non audit fees related to a potential interest saving low cost financing project and reporting on banking covenants. The amount and nature of non audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

Nominations Committee

Roger Matthews is the Chairman of the Nominations Committee and the other members of the Committee are Mark Morris and Mark Warburton. The Committee met twice in 2008.

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

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

Remuneration Committee

During 2008 the Remuneration Committee was chaired by Peter Hales (until June 2008) and Robert Sharpe (from September to December 2008). Since Robert's departure, it has been chaired by Mark Morris and its other members are Mark Warburton and Roger Matthews (since December 2007). During 2008 it met four times. Simon Embley, the CEO, attended all of the meetings in an advisory capacity but he was not present when his remuneration was discussed. In addition, the Group HR Director assisted the Committee in its deliberations during this period and has attended most of the Committee meetings in 2008.

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

The Remuneration Committee may, in exercising its discretion in relation to the remuneration of executive directors, take into account the Company's performance on governance and CSR related issues. Further, it ensures that the incentive schemes put in place for members of the senior management team do not raise any environmental, social or governance issues by inadvertently motivating irresponsible behaviour.

In addition, the Remuneration Committee provides a framework for the Board's discussions on succession planning for all senior managers. The remuneration of non executive directors is a matter for the Board. No director or manager may be involved in any decisions as to their own remuneration.

Relations with Shareholders

The Company maintains a dialogue with institutional shareholders through individual meetings with senior management and the views of shareholders expressed during these meetings are reported to the Board. The main opportunity for non-institutional shareholders to question the directors is at general meetings and it is the intention of each of the directors to attend the AGM to be held at Buchanan Communications, 45 Moorfields, London EC2Y 9AE on 22 April 2009, starting at 2.30pm.

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

Both the Chairman (Roger Matthews) and the Senior Independent Director (Mark Morris) are available to meet with shareholders to discuss any issues or concerns. They can be contacted via the Company Secretary's office (details on page 82).

Model Code

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

Internal Controls

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

During 2008 the executive directors have continually identified, evaluated and managed material risks and uncertainties faced by LSL which could have adversely affected LSL's business, operating results and financial condition. The effectiveness of the internal control system and risk management process is kept under review by the Audit Committee and has been reviewed by the Board. The principal risks and uncertainties facing LSL are set out in the Report of the directors.

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

The Group has an internal audit team which regularly submits reports to the Audit Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance with controls on a continuing basis and to identify and respond to business risks as they arise.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary

4 March 2009

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

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

Remuneration Policy

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

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

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

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

Fees

The non executive directors' fees were fixed at the time of flotation and are reviewed periodically by the Board. No increases were awarded during 2008.

Save for Simon Embley's appointment to a small estate management company, none of the executive directors hold non executive directorships of any other companies other than to represent the minority interests of the Group. No remuneration is received by the individual or Group in relation to this.

Executive Directors' Salaries

The basic salaries for 2008 of the executive directors are:

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

Details of the directors' emoluments for 2008 are summarised in the table on page 27 (see Directors' Emoluments Table). Salaries are reviewed annually but there is no obligation to make any increase. The basic salaries were not increased at the beginning of 2008 or 2009 but will be reviewed at the end of the first half of 2009.

Performance Bonuses

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

No bonuses were payable to the executive directors in 2008.

A bonus arrangement has been put in place for the executive directors for 2009. Under the arrangement the maximum bonus payable to each of the executive directors will be equal to 100% of basic salary over the period. The performance target is based on LSL's budgeted Underlying Operating Profit after payment of bonus. The payment of any bonus is discretionary and will be awarded by the Remuneration Committee.

Long-term Incentives

A number of senior management employees including the executive directors currently own approximately 31% of the Company. The two-year lock-in which commenced in November 2006 (the date of listing) expired in November 2008.

LSL has also established a long term incentive plan to ensure that key employees are properly incentivised and fully committed to the long term growth of the business.

Where options are granted the Remuneration Committee will approve the individual grants and criteria that must be achieved before options vest on a case to case basis. These criteria will be stretching and challenging.

Prior to flotation, three employees received a grant of options under this scheme, which in total amounted to options over 130,512 shares.

During 2007, two further options were granted to two employees amounting over a total of 65,103 shares. The 2007 awards are subject to a vesting period of 3 years and are conditional upon the Company achieving an earnings per share growth of at least 10% per annum during the three year vesting period.

During 2008 no options were granted because of the prevailing market conditions. This will be reviewed during 2009.

To date no long term incentive or executive share options have been granted to any of the executive directors.

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

Save-As-You-Earn scheme

Simon Embley and Paul Latham participated in the Company's 2008 Save-As-You-Earn (SAYE) scheme, which entitles them to acquire 8,311 ordinary shares each in 2011 at a price of £1.15 per share. There were no options exercised during the year or exercisable at the end of the year. The options are only exercisable effective 1 May 2011 if the directors remain in service for the full duration of the option scheme (three years). The options will expire on 1 October 2011. The market price of the Company's shares on 31 December 2008 was 64.5p per share. The highest and lowest market prices during the year for each share under option that is unexpired at the end of the year were £1.38 per share and 30p per share respectively.

During the year Simon Embley cancelled his participation in the 2007 SAYE scheme which resulted in the lapse of his option to acquire 4,648 ordinary shares in 2010 at a price of £1.74 per share.

Further details on the terms of 2008 and 2007 SAYE schemes can be found in note 12 of the financial statements.

Executive Directors' Pensions

The executive directors' pension scheme is a money purchase scheme and the aggregate amount set aside by LSL to provide pension, retirement or similar benefits in relation to the executive directors in the financial year ended 31 December 2008 was £23,753 (2007: £30,104). This was made up as follows: Simon Embley £9,000 (2007: £14,250); Dean Fielding £6,250 (2007: £8,854); and Paul Latham £8,503 (2007: £7,000).

Executive Director Service Arrangements

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

	Continuous Employment Since	Notice Period (both parties)	Pension	Car Allowance	Holiday
Simon Embley (Group CEO)	31.08.1993	9 months	£9,000	Allowance (£10,000 p/a)	30 days
Dean Fielding (Group FD)	01.05.1995	6 months	£6,250	Allowance (£8,500 p/a)	30 days
Paul Latham (Group Deputy CEO)	21.11.1987	9 months	£8,503	Company Car (£11,310 p/a)	30 days

Each of the service agreements allows LSL to place the director on 'garden leave' for a maximum period of six months in the event the director has given, or is given, notice to terminate their employment. Each of the agreements also provides for the relevant executive director to receive medical insurance, life assurance and permanent health insurance as well as a discretionary bonus (see Performance Bonuses on page 25 for details relating to bonus awards). None of the executive directors are entitled to any benefit on termination of his service agreement other than contractual benefits to be provided during any notice period.

Non Executive Director Appointment Arrangements

Non-Executive Director	**Date of Appointment**
Roger Matthews	11 October 2006
Peter Hales	1 February 2005 (resigned 1 June 2008)
Mark Morris	11 October 2006
Mark Warburton	11 October 2006
Robert Sharpe	1 September 2008 (resigned 1 December 2008)

Roger Matthews, Mark Morris and Mark Warburton each have letters of appointment, which were issued by LSL on appointment and which became effective on admission. The fees due for such appointments are detailed in the Directors' Emoluments table on page 27. Under the terms of each letter of appointment the appointment is for an actual term of three years unless otherwise terminated earlier by, and at the discretion of either party on three months' notice. In addition, the appointments may be terminated by LSL for cause. The non executive directors are not entitled to participate in LSL's executive remuneration programmes or pension arrangements.

Directors' Emoluments table

Details of each director's remuneration for the year ended 31 December 2008 are as follows:

	Salary	Related Bonuses	Allowances & Benefits (excluding pension)*	2008 Total	2007 Total
Simon Embley (Group CEO)	£180,000	Nil	£10,864	£190,864	£307, 814
Dean Fielding (Group Finance Director)	£125,000	Nil	£10,090	£135,090	£197,097
Peter Hales (non executive director)	£17,500	Nil		£17,500	£39,550
Paul Latham (Deputy CEO)	£140,000	£2,500+	£18,067	£160,567	£220,813
Roger Matthews (Chairman)	£100,000	Nil		£100,000	£100,000
Mark Morris (non executive director)	£40,000	Nil		£40,000	£35,000
Mark Warburton (non executive director)	£35,000	Nil		£35,000	£35,000
Robert Sharpe (non executive director)	£11,667			£11,667	

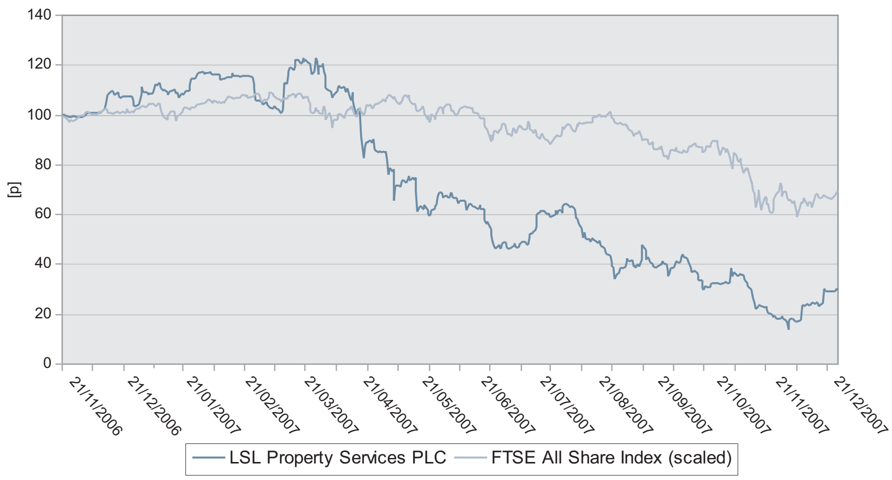
Only the above table forms part of the Financial Statements on which the auditors have expressed their opinion in their report

* Excludes costs associated for the SAYE 08 scheme referred to at page 26

\+ This relates to under accrual of bonus payment for the financial year 2007.

Shareholder Return —21 November 2006 to 31 December 2008

Total shareholder return – Value (£)



This graph shows the value, by the end of December 2008, of £100 invested in the Company on 21 November 2006 compared with the value of £100 invested in the FTSE All Share Index. The FTSE All Share Index has been selected as a sufficiently broad market index which is most comparable to the Company.

The mid market price of the Company's shares in the financial period ranged from 140p to 30p

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary

4 March 2009

Corporate Social Responsibility

As part of its regular risk assessment procedures, the Board takes account of the significance of environmental, social and governance (ESG) matters to the business of LSL. The Board has identified the significant ESG risks to LSL's short and long term value, as well as the opportunities to enhance value that may arise from an appropriate response. The Board has received adequate information to make this assessment and ESG matters are taken into account in the training of directors. The Board has ensured that LSL has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

Set out below is LSL's Corporate Social Responsibility statement, which applies to the Group.

1. Statement

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

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

2. Aim

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

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

3. Scope

All permanent and temporary employees (regardless of type of contract or terms and conditions) working within the Group.

4. Employment / Labour

4.1 Communication

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

4.2 Equal Opportunities

LSL is committed to a policy of equal opportunity in employment which is seen as a vital part in the success and growth of LSL. Every effort is made to select recruit, train and promote the best candidates based on suitability for the job, to treat all employees and applicants fairly regardless of race, sex, marital status, nationality, ethnic origin or disability, and to ensure that no employee suffers harassment or intimidation.

4.3 Health, Safety & Welfare at Work

LSL places great importance on the health, safety and welfare of its employees. Policies, group standards and procedures are in place, which aim to identify and remove any hazardous areas, reduce material risks of fire and accidents or injuries to employees and visitors and, in conjunction with its HR policies, manage workplace stress levels.

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

LSL's policy is to provide employment and to make reasonable adjustment to accommodate disabled persons wherever the requirements of the organisation will allow and if applications for employment are received from suitable individuals. If existing employees become disabled every reasonable effort will be made to ensure that their employment with LSL can continue on a worthwhile basis with career opportunities available to them.

5. Environmental issues

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

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

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

6. Social and Community interests (including Social and Ethical Issues)

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

6.1 For its Employees

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

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

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

6.2 For its Customers

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

6.3 For its Suppliers

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

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

7. Social Community and environment

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

7.1 For LSL Shareholders and other suppliers of finance

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

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

8. Management commitment

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

Statement of Directors' Responsibilities in relation to the Group Financial Statements

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.
The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

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

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

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

Independent Auditor's Report to the Members of LSL Property Services plc

We have audited the Group financial statements of LSL Property Services plc for the year ended 31 December 2008 which comprise Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Statement of Group Recognised Income and Expense and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of LSL Property Services plc for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Chairman's Statement and Business Review that is cross referred from the Business Review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Business Review and Directors' Report, the unaudited part of the Director's Remuneration Report, the Chairman's Statement, the Corporate Governance Report and the Corporate Social Responsibility Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion :

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
Leeds

4 March 2009

Group income statement for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Revenue	3	**161,773**	219,518
Operating expenses:			
Employee and subcontractor costs	12	**88,912**	120,054
Establishment costs		**12,485**	12,364
Depreciation on property, plant and equipment	15	**2,299**	2,227
Other		**40,638**	48,804
		(144,334)	(183,449)
Rental income		**765**	1,125
Group operating profit before exceptional costs, amortisation and share-based payments		**18,204**	37,194
Share-based payments	12	**(138)**	(650)
Amortisation of intangible assets	14	**(10,111)**	(9,145)
Exceptional costs	7	**(7,735)**	(1,413)
Group operating profit	4	**220**	25,986
Dividend income		**334**	373
Finance income	5	**190**	357
Finance costs	6	**(4,035)**	(3,429)
Exceptional finance costs	7	**(432)**	–
Net financial costs		**(3,943)**	(2,699)
(Loss)/profit before tax before adjustment to goodwill		**(3,723)**	23,287
Adjustment to goodwill in respect of subsequent recognition of deferred tax asset	14	**(1,048)**	(1,000)
(Loss)/profit before tax	8	**(4,771)**	22,287
Taxation	13		
– related to exceptional costs		**2,022**	(424)
– others		**(600)**	(5,443)
		1,422	(5,867)
(Loss)/profit for the year*	24	**(3,349)**	16,420
(Loss)/earnings per share expressed in pence per share:			
Basic	10	**(3.3)**	15.8
Diluted	10	**(3.3)**	15.7

* All attributable to equity shareholders of the parent

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

Statement of group recognised income and expense for the year ended 31 December 2008

Total recognised income and expense for the year:

	Note	2008 £'000	2007 £'000
Loss)/profit for the year		**(3,349)**	16,420
Available-for-sale investments:			
Valuation (losses)/gains taken to equity	16	**(1,600)**	5,500
Total recognised income and expense*		**(4,949)**	21,920

* All attributable to equity shareholders of the parent

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

Group balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Goodwill	14	**66,422**	69,572
Other intangible assets	14	**31,413**	41,562
Property, plant and equipment	15	**2,841**	4,600
Financial assets	16	**4,052**	5,650
Other receivables	17	**5**	129
Total non-current assets		**104,733**	121,513
Current assets			
Trade and other receivables	17	**13,919**	21,458
Current tax assets		**255**	–
Cash and cash equivalents	18	**647**	2,326
Total current assets		**14,821**	23,784
Total assets		**119,554**	145,297
Current liabilities			
Financial liabilities	20	**1,273**	17,350
Trade and other payables	19	**27,564**	39,909
Current tax liabilities		**–**	4,957
Provisions for liabilities and charges	21	**1,195**	339
Total current liabilities		**30,032**	62,555
Non-current liabilities			
Financial liabilities	20	**48,611**	33,640
Trade and other payables	19	**39**	97
Deferred tax liability	13	**557**	1,892
Provisions for liabilities and charges	21	**6,586**	4,175
		55,793	39,804
Net assets		**33,729**	42,938
Equity			
Share capital	23	**208**	208
Share premium account	24	**5,629**	5,629
Share-based payment reserve	24	**531**	560
Investment in treasury shares	24	**(2,934)**	(2,669)
Unrealised gain reserve	24	**3,900**	5,500
Retained earnings	24	**26,395**	33,710
Total equity		**33,729**	42,938

The financial statements were approved by the Board on 4 March 2009 and were signed on its behalf by:

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

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

Group cash flow statement for the year ended 31 December 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Cash generated from operating activities					
(Loss)/profit before tax			**(4,771)**		22,287
Adjustments to reconcile (loss)/profit before tax to net cash inflows from operating activities					
Amortisation of intangible assets		**10,111**		9,145	
Dividend income		**(334)**		(373)	
Finance income		**(190)**		(357)	
Finance costs		**4,035**		3,429	
Adjustment in relation to deferred tax asset		**1,048**		1,000	
			14,670		12,844
Group operating profit before amortisation			**9,899**		35,131
Depreciation	15	**2,299**		2,227	
Impairment of goodwill	7	**1,036**		130	
Impairment of intangible assets	7	**38**		–	
Impairment of property, plant and equipment	7	**–**		207	
Loss/(profit) on sale of property, plant and equipment		**419**		(30)	
Share-based payments		**138**		650	
		3,930		3,184	
Decrease in trade and other receivables		**7,663**		2,050	
(Decrease)/increase in trade and other payables and provisions		**(9,152)**		2,139	
			2,441		7,373
Cash generated from operations			**12,340**		42,504
Interest paid		**(3,993)**		(3,429)	
Tax paid		**(5,126)**		(9,662)	
			(9,119)		(13,091)
Net cash from operating activities			**3,221**		29,413
Cash flows from investing activities					
Purchase of subsidiary undertakings, minority interest and commercial business	26	**(276)**		(3,806)	
Purchase of intangible assets	14	**–**		(30,192)	
Interest received		**190**		357	
Dividends received		**334**		373	
Purchase of property, plant and equipment	15	**(1,043)**		(2,422)	
Proceeds from sale of property, plant and equipment		**84**		139	
Purchase of available for sale financial assets		**(2)**		(2)	
Net cash expended on investing activities			**(713)**		(35,553)
Net cash from operating activities less cash expended on investing activities			**2,508**		(6,140)
Cash flows from financing activities					
Repayment of loans		**–**		(5,402)	
Proceeds from loans		**44**		18,785	
Purchase of treasury shares		**(265)**		(2,371)	
Dividends paid		**(3,966)**		(3,124)	
Net cash (used)/generated in financing activities			**(4,187)**		7,888
Net (decrease)/increase in cash and cash equivalents			**(1,679)**		1,748
Cash and cash equivalents at the beginning of the year			**2,326**		578
Cash and cash equivalents at the end of the year	18		**647**		2,326

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

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

The Group financial statements of LSL Property Services plc and its subsidiaries for the year ended 31 December 2008 were authorised for issue by the Board of the Directors on 4 March 2009 and the balance sheet was signed on the Board's behalf by S D Embley and D A Fielding. LSL Property Services plc is a listed company incorporated and domiciled in England & Wales and the Group operates a network of estate agencies, surveying businesses and other related businesses.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985.

2. Accounting policies

Basis of preparation of financial information

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

The accounting policies which follow set out those significant policies which apply in preparing the financial statements for the year ended 31 December 2008. The Group's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Judgements and estimates

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets (including goodwill) are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 14).

Fair value of unquoted equity instruments

Certain unquoted equity instruments have been valued based on the expected dividend cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future dividend cash flows and discount rates, and hence they are subject to uncertainty. The fair value of such unquoted equity instruments at 31 December 2008 is given in note 16.

Other areas

Other areas of significant judgement include contingent consideration, provisioning for professional indemnity claims and onerous leases. Details of key assumptions in these areas are disclosed in notes 20 and 21 to these financial statements.

Basis of consolidation

The Group financial statements incorporate the financial statements of LSL Property Services plc and the entities controlled by the Group (its subsidiaries) for the year ended 31 December 2008 and 31 December 2007. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

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

2. Accounting policies (continued)

Basis of consolidation (continued)

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

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

The purchase method of accounting is used for all acquisitions of subsidiaries.

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

Changes in accounting policies and estimates

New accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the IFRIC 11 IFRS 2 – Group and Treasury Share Transactions during the year. Adoption of this revised interpretation did not have any effect on the financial statements of the Group.

The Group has adopted IFRIC Interpretation 11 in so far as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group has not issued instruments caught by this Interpretation.

Change in accounting estimates

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

Intangible assets

Goodwill

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

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

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

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

2. Accounting policies (continued)

Other intangible assets

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

Amortisation

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

Customer contracts:	
Estate agency customer contracts	– ten years
Surveying customer contracts	– between three and five years
Financial services customer contracts	– three years
General insurance renewal	
Commission contracts	– between six and seven and a half years
Lettings contracts	– fifteen months
Order book:	
Estate agency pipeline	– six months
Surveying pipeline	– one week
Estate agency register	– twelve months
Others:	
Franchise agreements	– ten years
In-house software	– three years

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

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

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

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

Impairment

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

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

2. Accounting policies (continued)

Property, plant and equipment

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

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

Dividends

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

Income taxes

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised:

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

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

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

Share-based payment transactions

Equity-settled transactions

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

Cash-settled transactions

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

2. Accounting policies (continued)

Treasury shares

The Group has an Employee Share Trust (ESOT) and an Employee Benefit Trust (EBT) for the granting of group shares to executives and senior employees. Shares in the Group held by the trusts are treated as treasury shares and presented in the balance sheet as a deduction from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. The finance costs and administration costs relating to the trusts are charged to the income statement. Dividends earned on shares held in the trusts have been waived. The shares are ignored for the purposes of calculating the Group's earnings per share.

Leases

Group as a lessee

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

Group as a lessor

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

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

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

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

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

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

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

Pensions

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

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

Available-for-sale financial assets

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

2. Accounting policies (continued)

Financial instruments (continued)

Cash and short term deposits

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

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

Trade receivables

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

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

In July 2008, the Group entered into a third party finance arrangement for the payment of Home Information Packs ('HIPs'). Any trade receivables arising from HIPs were paid upfront by the third party finance company with no recourse. Fees charged by the third party finance company have been included as part of the finance costs within the income statement.

Trade payables

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

Interest bearing loans and borrowings

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

Finance costs comprise interest payable on borrowings calculated at the effective interest rate method and recognised on an accruals basis.

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate caps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The Group has not adopted hedge accounting for its derivative financial instruments. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement.

Impairment of financial assets

Available-for-sale financial assets

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

Assets carried at cost

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

Assets carried at amortised cost

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

2. Accounting policies (continued)

Revenue recognition

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

Rendering of services

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

Home Information Packs

Revenue from providing HIPs is recognised when they are completed and provided to the customers.

Financial services income

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

Interest income

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

Rental income

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

Dividends

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

Exceptional items

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

New standards and interpretations not applied

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

International Accounting Standards (IAS/IFRSs)

		Effective date*
IFRS 1	First time Adoption of International Financial Reporting Standards (Revised)	1 January 2009
IFRS 1 & IAS 27	First-time Adoption of International Financial Reporting Standards – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)	1 January 2009
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations (Amendment)	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated & Separate Financial Statements	1 July 2009
IAS 32 & IAS 1	IAS 32 Financial Instruments and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)	1 January 2009
IAS 39 & IFRS 7	IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Re-classification of Financial Assets	1 July 2008
IAS 39	Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment)	1 July 2006
	Improvements to International Financial Reporting Standards	1 January 2009

2. Accounting policies (continued)

International Financial Reporting Interpretations Committee (IFRIC)

New interpretations

		Effective date*
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distribution of Non-cash Assets to Owners	1 July 2009

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

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

IFRS 8 requires disclosure based on information presented to the board. Whilst this is now expected to change the business segments about which information is given, the secondary segment information will be replaced by group-wide analysis of revenues and non-current assets by major geographical area. For customers that individually account for more than 10% of total revenues, additional disclosures would be required as per IFRS 8.

The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions and, whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit), it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. The amendment is mandatory for period beginning on or after 1 January 2009 and will result in an increase in the 2008 loss before tax by £1,413,000 with corresponding impact on equity.

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

3. Revenue

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

Revenue disclosed in the income statement is analysed as follows:

	2008 £'000	2007 £'000
Revenue from services	**161,773**	219,518
Revenue	**161,773**	219,518
Rental income	**765**	1,125
Dividend income	**334**	373
Finance income	**190**	357
Total revenue	**163,062**	221,373

4. Segment reporting

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

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

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

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

Year ended 31 December 2008

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	66,716	80,073	14,984	–	**161,773**
Segmental result:					
– before exceptional costs, amortisation and share-based payments	(7,250)	28,590	(1,185)	(1,951)	**18,204**
– after exceptional costs, amortisation and share-based payments	(11,407)	17,099	(3,625)	(1,847)	**220**
Dividend income					**334**
Finance income					**190**
Finance costs					**(4,035)**
Exceptional finance costs					**(432)**
Loss before tax before adjustment to goodwill					**(3,723)**
Adjustment to goodwill in respect of subsequent recognition of deferred tax asset					**(1,048)***
Loss before tax					**(4,771)**
Taxation					**1,422**
Loss for the year					**(3,349)**

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

Year ended 31 December 2008

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Balance sheet information					
Segment assets	60,718	39,273	14,566	5,069	**119,626**
Segment liabilities	(14,836)	(16,060)	(5,381)	(49,548)	**(85,825)**
Net assets/(liabilities)	45,882	23,213	9,185	(44,479)	**33,801**
Other segment items					
Capital expenditure	809	225	9	–	**1,043**
Depreciation	(1,651)	(554)	(94)	–	**(2,299)**
Amortisation of intangible assets	(444)	(8,696)	(971)	–	**(10,111)**
Professional indemnity claim provision	–	(3,877)	–	–	**(3,877)**
Onerous leases provision	(1,793)	(25)	–	–	**(1,818)**
Share based payment	(4)	(109)	(25)	–	**(138)**
Impairment of trade receivables	(975)	187	(1)	–	**(789)**
Impairment of goodwill	–	–	(1,036)	–	**(1,036)**
Impairment of intangible assets	–	–	(38)	–	**(38)**

Unallocated net liabilities comprise certain property, plant and equipment, financial assets, cash and bank balances, net debt and taxation.

4. Segment reporting (continued)

Year ended 31 December 2007

	Estate agency and related activities £'000	Surveying and valuation services £'000	Financial services £'000	Unallocated £'000	Total £'000
Income statement information					
Segmental revenue	107,110	89,866	22,542	–	**219,518**
Segmental result:					
– before exceptional costs, amortisation and share-based payments	13,758	26,415	(833)	(2,146)	**37,194**
– after exceptional costs, amortisation and share-based payments	10,373	20,149	(1,995)	(2,541)	**25,986**
Dividend income					**373**
Finance income					**357**
Finance costs					**(3,429)**
Profit before tax before adjustment to goodwill					**23,287**
Adjustment to goodwill in respect of subsequent recognition of deferred tax asset					**(1,000)***
Profit before tax					**22,287**
Taxation					**(5,867)**
Profit for the year					**16,420**

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

Year ended 31 December 2007

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

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

Unallocated net liabilities comprise certain property, plant and equipment, financial assets, cash and bank balances, net debt and taxation.

5. Finance income

	2008 £'000	2007 £'000
Interest receivable on funds invested	**104**	357
Other interest income	**86**	–
	190	357

6. Finance costs

	2008 £'000	2007 £'000
Bank interest:		
Other loans	**3,775**	3,429
Unwinding of discount on contingent consideration	**42**	–
HIPS financing fees	**218**	–
	4,035	3,429

7. Exceptional costs

	2008 £'000	2007 £'000
Establishment costs		
Onerous leases provision due to branch closures	**1,709**	501
Employee costs		
Redundancy costs due to branch closures and business reorganisation	**2,410**	575
Other		
Impairment of property, plant and equipment	**–**	207
Impairment of brand	**38**	–
Impairment of goodwill	**1,036**	130
Costs of aborted acquisition of businesses and financing project	**242**	–
Accelerated depreciation due to branch closures	**269**	–
Provision for professional indemnity claims	**2,031**	–
Total Operating Exceptional Costs	**7,735**	1,413
Finance Costs		
Banking fees incurred for renegotiation of facility	**432**	–
	8,167	1,413

Exceptional costs were incurred in 2008 as shown above reflecting the unprecedented market conditions and the need to restructure the business in line with lower activity levels.

In 2008 given the deterioration in the UK housing market the business considers that it is appropriate to make a one off increase in its professional indemnity claims provision of £2,031,000 to take account of the increase in numbers of recovery claims made and likely to be made for inaccurate valuations.

In 2008, Linear Financial Services Limited and Linear Mortgage Network Limited continued to incur operating losses and an impairment review was conducted in accordance with the accounting policy. As a result of this impairment review the entire value of brand in intangible assets of £38,000 and carrying value of goodwill relating to both companies of £1,036,000 were impaired.

In 2007, Homefast Property Services Limited ('Homefast') continued to incur operating losses during the year and an impairment review was conducted in accordance with the accounting policy. As a result of this impairment review the entire net book value of property, plant and equipment of £207,000 and carrying value of goodwill relating to Homefast of £130,000 were impaired. There was no further value associated to any non-current assets in this business.

8. (Loss)/profit before tax

(Loss)/profit before tax is stated after charging/(crediting):

	2008 £'000	2007 £'000
Auditors' remuneration (note 9)	**216**	314
Operating lease rentals:		
Land and buildings	**8,442**	8,493
Plant and machinery	**2,394**	2,529
Loss/(profit) on disposal of property, plant and equipment	**419**	(30)

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2008 £'000	2007 £'000
Audit of the financial statements †	**49**	68
Other fees to auditors:		
– local statutory audits for subsidiaries	**104**	134
– other services supplied pursuant to legislation	**4**	29
– corporate finance services	**–**	80
– other services	**59**	3
	216	314

† £35,000 (2007: £49,000) of this relates to the Company and £1,000 (2007: £19,000) relates to an over accrual of prior year audit fees.

10. Earnings per share

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

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

	Loss after tax £'000	**Weighted average number of shares**	**2008 Per share amount *Pence***	Profit after tax £'000	Weighted average number of shares	2007 Per Share Amount *Pence*
Basic EPS	**(3,349)**	**102,845,156**	**(3.3)**	16,420	103,647,347	15.8
Effect of dilutive share options	**–**	**195,615**	**–**	–	609,076	–
Diluted EPS	**(3,349)**	**103,040,771**	**(3.3)**	16,420	104,256,423	15.7

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

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

	2008 £'000	2007 £'000
(Loss)/profit after tax attributable to equity holders of the parent	**(3,349)**	16,420
Adjusted after tax for:		
Exceptional costs	**6,145**	989
Amortisation	**7,229**	6,401
Share-based payment	**99**	455
Adjusted profit after tax attributable to equity holders of the parent	**10,124**	24,265

10. Earnings per share (continued)

Adjusted basic and diluted EPS

	Adjusted Profit after tax[1] £'000	**Weighted average number of shares**	**2008 Per share amount *Pence***	Adjusted Profit after tax £'000	Weighted average number of shares	2007 Per Share Amount *Pence*
Adjusted Basic EPS	**10,124**	**102,845,156**	**9.8**	24,265	103,647,347	23.4
Effect of dilutive share options	**–**	**195,615**	**–**	–	609,076	–
Adjusted Diluted EPS	**10,124**	**103,040,771**	**9.8**	24,265	104,256,423	23.3

[1] This represents adjusted profit after tax attributable to equity holders of the parent.

11. Dividends paid and proposed

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2007: 3.86 pence (2007: nil)	**3,966**	–
Interim dividend for 2008: nil pence (2007: 3 pence)	**–**	3,124
	3,966	3,124
Proposed for approval at AGM (not recognised as a liability as at 31 December):		
Equity dividends on ordinary shares:		
Final dividend for 2008: nil pence per share (2007: 3.86 pence)	**–**	3,976

12. Directors and employees

Remuneration of directors

	2008 £'000	2007 £'000
Directors' emoluments (Short-term benefits)	**691**	935
Contributions to money purchase pensions schemes (Post employment benefits)	**24**	30
Share-based payments	**–**	1
	715	966

Consultancy fees and expenses of £2,415 (2007: £2,418) were also paid by the Group during the year.

The number of directors who were members of Group money purchase pension schemes during the year totalled 3 (2007: 3).

The remuneration of the highest paid director amounted to £190,864 (2007: £307,846) excluding pension costs. Group contributions to money purchase pension schemes for that director amounted to £9,000 (2007: £14,250) in the year.

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

12. Directors and employees (continued)

Employee numbers and costs

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

	2008 £'000	2007 £'000
Wages and salaries	**73,993**	95,729
Social security costs	**7,881**	9,836
Pension costs	**2,054**	1,932
Total employee costs	**83,928**	107,497
Subcontractor costs	**4,984**	12,557
Total employee and subcontractor costs*	**88,912**	120,054
Share-based payment expense (see below)	**138**	650

* The total employee and subcontract or costs exclude employees redundancy costs of £2,410,000 (2007:£575,000), which have been shown under Exceptional costs (Note 7).

The monthly staff numbers (including directors) during the year averaged 3,061 (2007: 3,380).

	2008	2007
Estate agency and related activities	**1,769**	2,046
Surveying and valuation services	**957**	925
Financial services	**335**	409
	3,061	3,380

Share-based payments

Long Term Incentive Plan

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

	2008		2007	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	–	**195,615**	–	130,512
Granted during the year	–	–	–	65,103
Outstanding at 31 December	–	**195,615**	–	195,615

There were no options exercisable at the end of the year (2007: none).

The weighted average fair value of options granted during the previous year was £nil (2007: £2.13). The weighted average remaining contractual life is 1.19 years (2007 : 2.19 years).

Save-As-You-Earn scheme

In December 2006, the Group announced an employee 'Save-As-You-Earn' scheme effective from January 2007 and in March 2008 the Group announced a new Save-As-You-Earn scheme effective April 2008. Both these schemes are open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant less 20%. The options will vest if the employee remains in service for the full duration of the option scheme (three years). There are no cash settlement alternatives.

12. Directors and employees (continued)

Share-based payments (continued)

2007 Scheme

	2008		2007	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	**1.74**	**2,131,034**	–	–
Granted during the year	**–**	**–**	1.74	2,131,034
Lapsed during the year due to employees withdrawal	**1.74**	**(1,729,613)**	–	–
Outstanding at 31 December	**1.74**	**401,421**	1.74	2,131,034

The weighted average of the fair value of the options was £0.63 and the weighted average remaining contractual life was 1.01 years (2007: 2.01 years).

There were no options exercisable at the end of the year (2007: none).

2008 Scheme

	2008		2007	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1 January	**–**	**–**	–	–
Granted during the year	**1.155**	**1,798,068**	–	–
Lapsed during the year due to employees withdrawal	**1.155**	**(677,891)**	–	–
Outstanding at 31 December	**1.155**	**1,120,177**	–	–

The weighted average of the fair value of the options was £0.47 and the weighted average remaining contractual life was 2.23 years (2007: not applicable). There were no options exercisable at the end of the year (2007: none).

12. Directors and employees (continued)

Share-based payments (continued)

Equity-settled

	2008			2007	
	SAYE 2008	**SAYE 2007**	**LTIPs**	SAYE 2007	LTIPs
Option pricing model used	**Black Scholes**	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	**1.34**	**2.35**	**2.38**	2.35	2.38
Exercise price (£)	**1.155**	**1.74**	**nil**	1.74	nil
Expected life of options (years)	**3 years**	**3 years**	**3 years**	3 years	3 years
Expected volatility	**42%**	**11%**	**11%**	11%	11%
Expected dividend growth rate	**2.15%**	**3.68%**	**3.68%**	3.68%	3.68%
Risk free interest rate	**5.25%**	**5.5%**	**5.5%**	5.5%	5.5%

The total cost recognised for equity settled transactions is as follows:

	2008 £'000	2007 £'000
Share-based payment charged during the year	**350**	547
Reversal of share-based payment charge due to employees withdrawal	**(362)**	–
	(12)	547

Of this £2,000 (2007: £5,000) relates to employees of the Company.

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

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

Cash-settled

In 2007, the Group issued shares in a subsidiary undertaking to certain employees of that subsidiary. The shares transferred are subject to restrictions on transferability if the concerned employees are not in continuous employment in the Group. The Group also has a 'call option' on these shares and the exercise price for the call option is based on future profitability of the subsidiary. The Group has accounted for this share transfer as a cash-settled share-based payment due to the nature of the transaction and recognised a share-based payment charge of £150,000 (2007: £103,000) using a discount factor rate of 7 per cent. None of this cost relates to the Company.

13. Taxation

(a) Tax on (loss)/profit

Tax (credited)/charged in the income statement comprises:

	2008 £'000	2007 £'000
UK corporation tax		
– current year	**755**	9,494
– tax overprovided in prior year	**(42)**	(285)
– utilisation of tax losses	**(800)**	(1,000)
	(87)	8,209
Deferred tax:		
Origination and reversal of temporary differences	**(1,271)**	(2,342)
Adjustment in respect of prior year	**(64)**	–
Total deferred tax	**(1,335)**	(2,342)
Total tax (credit)/charge in the income statement	**(1,422)**	5,867

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is higher (2007: lower) than the standard UK corporation tax rate, because of the following factors:

	2008 £'000	2007 £'000
(Loss)/profit on ordinary activities before tax	**(4,771)**	22,287
(Loss)/profit on ordinary activities multiplied by rate of corporation tax rate in the UK of 28% (2007: 30%)	**(1,336)**	6,686
Non taxable income	**(164)**	–
Disallowable expenses	**954**	780
Change in current tax rate in period	**17**	(48)
Reduction in deferred taxes resulting from reduction in tax rate	**–**	(228)
Other	**13**	(38)
	(516)	7,152
Utilisation of tax losses on which deferred tax asset was not recognised previously	**(800)**	(1,000)
Prior period adjustments – current tax	**(42)**	(285)
Prior period adjustment – deferred tax	**(64)**	–
Total taxation (credit)/charge	**(1,422)**	5,867

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

	2008 £'000	2007 £'000
Property, plant and equipment temporary differences	**11**	39
Other temporary differences	**85**	304
Losses	**134**	482
	230	825

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

13. Taxation (continued)

(d) Deferred tax

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

	2008 £'000	2007 £'000
Net deferred tax liability at 1 January	**1,892**	3,424
Deferred tax liability on recognition of separately identifiable intangible assets on acquisition of subsidiaries	–	810
Deferred tax credit in income statement for the year (note 13a)	**(1,335)**	(2,342)
Net deferred tax liability at 31 December	**557**	1,892

Analysed as:

	2008 £'000	2007 £'000
Depreciation in excess of capital allowances	**(1,127)**	(840)
Deferred tax liability on separately identifiable intangible assets on business combinations	**2,959**	4,070
Deferred tax on share options	**(213)**	(189)
Other short-term temporary differences	**(1,062)**	(1,149)
	557	1,892

Deferred tax credit in income statement relates to the following:

	2008 £'000	2007 £'000
Amortisation of intangible assets recognised on business combinations	**1,111**	1,641
Depreciation in excess of capital allowance	**287**	(237)
Deferred tax on share options	**24**	189
Reduction in deferred taxes resulting from reduction in tax rate	–	228
Other temporary differences	**(87)**	521
	1,335	2,342

At 31 December 2008, there was no unrecognised deferred tax liability (2007: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries.

14. Intangible assets

Goodwill

	2008 £'000	2007 £'000
Cost		
At 1 January	**69,572**	65,463
Acquisition of subsidiary undertakings	–	5,239
Acquisition of minority interest in existing subsidiaries	**276**	–
Adjustment in respect of change in contingent consideration	**(1,342)**	–
Adjustment in respect of subsequent recognition of deferred tax asset	**(1,048)**	(1,000)
Impairment of goodwill (note 7)	**(1,036)**	(130)
At 31 December	**66,422**	69,572

14. Intangible assets (continued)

Goodwill (continued)

In 2008, the adjustment to goodwill of £1,048,000 related to recognition of a deferred tax asset on tax losses which have been realised in 2008. However, a deferred tax asset related to these tax losses was not recognised at the time of accounting for the business combination, in accordance with IFRS 3 *Business Combinations*.

The adjustment to goodwill of £1,000,000 in 2007 related to recognition of a deferred tax asset on tax losses which have been realised in 2007. However, a deferred tax asset related to these tax losses was not recognised at the time of accounting for the business combination, in accordance with IFRS 3 *Business Combinations*.

	2008 £'000	2007 £'000
Carrying amount of goodwill by operating unit		
Estate agency companies		
your-move.co.uk Limited	**38,691**	39,739
Reeds Rains Limited	**15,243**	15,243
Intercounty Estate Agents Limited	**1,154**	1,431
Zenith Properties Limited	**169**	169
David Frost Estate Agents Limited	**737**	901
JNP Estate Agents Limited	**1,467**	1,614
Martin Stewart partnership	**180**	180
Thornton Hill Estate Companies	**168**	168
LSLi Limited	–	754
property-careers.com Limited	**126**	–
	57,935	60,199
Surveying companies		
e.surv Limited	**6,677**	6,677
Chancellors Associates Limited	**1,810**	1,810
	8,487	8,487
Financial services companies		
Linear Mortgage Network Limited	–	154
Linear Financial Services Limited	–	732
	–	886
	66,422	69,572

Impairment of goodwill and other intangibles with indefinite useful lives

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

	2008 £'000	2007 £'000
Estate agency companies		
your-move.co.uk Limited	**2,510**	2,510
Reeds Rains Limited	**1,241**	1,241
Intercounty Estate Agents Limited	**174**	174
David Frost Estate Agents Limited	**175**	175
JNP Estate Agents Limited	**132**	132
	4,232	4,232
Surveying companies		
e.surv Limited	**1,281**	1,281
Chancellors Associates Limited	**153**	153
	1,434	1,434
Financial services company		
Linear Financial Services Limited	–	38
	–	38
	5,666	5,704

14. Intangible assets (continued)

Goodwill (continued)

Impairment of goodwill and other intangibles with indefinite useful lives (continued)

Goodwill acquired through business combinations and brands has been allocated for impairment testing purposes to statutory companies as follows:

- **Estate agency companies**
  - your-move.co.uk Limited
  - Reeds Rains Limited
  - Homefast Property Services Limited
  - Intercounty Estate Agents Limited
  - Zenith Properties Limited
  - David Frost Estate Agents Limited
  - JNP Estate Agents Limited
  - Martin Stewart partnership
  - 4 Thornton Hill estate agency branches
  - LSLi Limited
  - property-careers.com Limited
- **Surveying companies**
  - e.surv Limited
  - Chancellors Associates Limited
- **Financial services companies**
  - Linear Financial Services Limited
  - Linear Mortgage Network Limited

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

Estate agency companies

The recoverable amount of the estate agency companies has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three-year period. The discount rate applied to cash flow projections is 14% (2007: 12%) and cash flows beyond the 3-year budget are extrapolated using a 0% (2007: 2%) growth rate.

Surveying companies

The recoverable amount of the Surveying companies is also determined on a value in use basis using cash flow projections based on financial budgets approved by the Board covering a three-year period. The discount rate applied to the cash flow projections is 12% (2007: 10%). The growth rate used to extrapolate the cash flows of the Surveying companies beyond the three-year period is 0% (2007: 1.5%).

Financial services companies

The recoverable amount of the financial services companies has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board covering a three-year period. The discount rate applied to cash flow projections is 14% (2007: 12%) and cash flows beyond the 3-year budget are extrapolated using a 0% (2007: 2%) growth rate.

Key assumptions used in value in use calculations

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

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

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

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

14. Intangible assets (continued)

Goodwill (continued)

Key assumptions used in value in use calculations (continued)

Market share and market recovery assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the company's relative position to its competitors might change over the budget period. Management expects the Group's share of the surveying market to be stable over the budget period and expect a marginal growth in the estate agency and financial services companies, especially since many smaller estate agents have closed down in the current year due to the difficult trading conditions. Further, the carrying value of goodwill in the estate agency companies is dependent on future cash flows arising from a reasonable level of recovery in housing transaction volumes over the next three years.

Growth rate estimates are based on management estimates.

The results of the impairment tests in 2008 confirmed that there had been an impairment of £1,036,000 in respect of the carrying amount of goodwill held on the balance sheet regarding Linear Financial Services Limited and Linear Mortgage Network Limited (included in the 'financial services' companies).

The results of the impairment tests in 2007 confirmed that there had been an impairment of £130,000 in respect of the carrying amount of goodwill held on the balance sheet regarding Homefast Property Services Limited (included in the 'estate agency' companies).

Sensitivity to changes in assumptions

With regard to the assessment of value in use for each of the above companies, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the company to exceed its recoverable amount. The principle estate agency companies, Your Move and Reeds Rains, have been impacted by the unprecedented market conditions and are currently loss making. Underpinning the carrying amount of goodwill is the assumption that more normal market conditions will resume in the future.

Other intangible assets

As at 31 December 2008:

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other * £'000	Total £'000
Cost							
At 1 January 2008 and 31 December 2008	5,704	44,774	5,612	2,044	5,206	1,127	64,467
Aggregate amortisation and impairment							
At 1 January 2008	–	12,874	2,177	2,031	5,009	814	22,905
Charge for the year	–	8,934	888	13	197	79	10,111
Impairment	38	–	–	–	–	–	38
At 31 December 2008	**38**	**21,808**	**3,065**	**2,044**	**5,206**	**893**	**33,054**
Carrying amount							
At 31 December 2008	**5,666**	**22,966**	**2,547**	**–**	**–**	**234**	**31,413**

As at 31 December 2007:

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

*Other relates to in-house software and franchise agreements.

14. Intangible assets (continued)

Other intangible assets (continued)

The brand value relates to the following:

- Your Move, a network of estate agencies and to esurv, a surveying company which were acquired by the Group in 2004,
- Reeds Rains, a network of estate agencies which were acquired by the Group in October 2005,
- Linear Financial Services, a financial services intermediary company which was acquired by the Group in July 2006,
- Chancellors Associates, a surveying business which was acquired by the Group in July 2006,
- Intercounty, a network of estate agencies which were acquired by the Group in February 2007,
- Frosts, a network of estate agencies which were acquired by the Group in July 2007, and
- JNP, a network of estate agencies which were acquired by the Group in September 2007.

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

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

15. Property, plant and equipment

As at 31 December 2008

	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost				
At 1 January 2008	3,700	176	13,527	17,403
Additions	–	–	1,043	1,043
Disposals	(273)	(133)	(956)	(1,362)
At 31 December 2008	**3,427**	**43**	**13,614**	**17,084**
Depreciation and impairment				
At 1 January 2008	3,539	9	9,255	12,803
Charge for the year	50	26	2,223	2,299
Disposals	(290)	(19)	(550)	(859)
At 31 December 2008	**3,299**	**16**	**10,928**	**14,243**
Carrying amount				
At 31 December 2008	**128**	**27**	**2,686**	**2,841**

15. Property, plant and equipment (continued)

As at 31 December 2007

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

16. Financial assets

Available-for-sale financial assets

	2008 £'000	2007 £'000
Unquoted shares carried at cost	**497**	495
Impairment	**(345)**	(345)
	152	150
Unquoted shares carried at fair value	**3,900**	5,500
Carrying value	**4,052**	5,650

Unquoted shares carried at cost

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

Unquoted shares carried at fair value

In 2003 the Group acquired 84 'A' ordinary shares of £0.01 each in Hometrack Data Systems Limited for a consideration of £1. This amounts to a 14.19% shareholding in that company. In 2007, the value of the unlisted equity shares in Hometrack Data Systems Limited has been estimated on the basis of the present value of the expected future dividend stream and a discount rate of 12%. The directors consider this to be the best proxy of current value. Management have estimated that the potential effect of using reasonably possible alternatives for expected future dividends would not result in a significant change in the above valuation.

At 31 December 2008, based on the management latest estimate using the similar basis, an adjustment of £1,600,000 to the fair value of the unlisted equity share was made against the unrealised gain reserve within equity. No deferred tax has been recognised on the gain as the Group is expected to be able to claim the Substantial Shareholding Exemption to offset with any capital gains tax arising for future disposal of the investment.

17. Trade and other receivables

	2008 £'000	2007 £'000
Current		
Trade receivables	**9,862**	15,341
Other receivables	**–**	27
Prepayments and accrued income	**4,057**	6,090
	13,919	21,458
Non-current		
Other receivables	**–**	88
Prepayments and accrued income	**5**	41
	5	129

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

As at 31 December 2008, trade receivables at nominal value of £1,154,000 (2007: £1,715,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008 £'000	2007 £'000
At 1 January	**1,715**	878
On acquisition of subsidiaries	**–**	67
Charge for the year	**789**	859
Amounts written off	**(1,192)**	(71)
Unused amounts reversed	**(158)**	(18)
At 31 December	**1,154**	1,715

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

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired 0–90 days £'000	Past due but not impaired >90 days £'000
2008	**9,862**	**4,752**	**4,944**	**166**
2007	15,341	9,856	5,188	297

18. Cash and cash equivalents

	2008 £'000	2007 £'000
Short-term deposits	**647**	2,326

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term deposits are made for varying periods of between one day and three days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £0.6m (2007: £2.3m). At 31 December 2008, the Group had available £27.9m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2007: £47.8m).

19. Trade and other payables

	2008 £'000	2007 £'000
Current		
Trade payables	**3,886**	8,919
Other taxes and social security payable	**4,381**	7,452
Other payables	**310**	523
Accruals	**18,987**	23,015
	27,564	39,909
Non-current		
Accruals	**39**	97

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on between 30- and 60-day terms.
- Other payables are mainly non-interest bearing and have an average term of three months.

20. Financial liabilities

	2008 £'000	2007 £'000
Current		
Secured bank loans – Revolving credit facility	–	16,948
Unsecured bank loan	**24**	36
Unsecured loan notes	**1,048**	100
Other secured loan payable to a director of a subsidiary	–	75
Other unsecured loans	**201**	191
	1,273	17,350
Non-current		
Secured bank loans – Revolving credit facility	**47,772**	30,501
Unsecured bank loan	**24**	46
Unsecured loan notes	**50**	997
Other unsecured loans	**41**	222
Cash-settled share based payment	**253**	103
Contingent consideration	**471**	1,771
	48,611	33,640

Secured bank loans – Revolving credit facility

The secured bank loans totalling £47.8m (2007: £47.4m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions Limited, First Complete Limited and its subsidiaries, property-careers.com Limited, Chancellors Associates Limited and LSLi Limited and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2007: £95m). The banking facility expires in July 2010 but can be extended at that date until July 2011 only at the option of the Company.

Interest payable on the revolving credit facility amounted to £3.6m (2007: £2.9m). The interest rate applicable to the facility is LIBOR plus a margin rate of 2.0% (2007: LIBOR plus 0.65%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

Unsecured bank loan

An unsecured bank loan of £48,000 (2007: £82,000) is outstanding to Barclays Bank plc by a group company. This is repayable over five years ending in June 2010 and incurs interest at a fixed rate of 10% per annum.

Unsecured loan notes

Unsecured loan notes of £1,098,000 (2007: £1,097,000) are outstanding in respect of consideration relating to acquisitions by a group company during the year. £1,048,000 is repayable in 2009 and the remainder in 2010, with a fixed rate of 5% per annum.

20. Financial liabilities (continued)

Other secured loan

A secured loan of £nil (2007: £75,000) is outstanding to a director of a subsidiary by a group company. This was repaid in 2008 and incurred interest at a variable rate of 2% above the current bank base rate. This loan was guaranteed by a debenture secured over the assets of a subsidiary company.

Other unsecured loan

An unsecured loan of £242,000 (2007: £413,000) is outstanding to a customer by a group company. This is repayable when funds permit and incurs interest at the current bank base rate.

Cash-settled share-based payment

An explanation is given in detail in note 12.

Contingent consideration

£624,000 (2007: £2,267,437) of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries in previous year. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. The contingent consideration was recorded at a fair value of £1,771,236 in 2007 using a discount rate of 7 per cent (note 26). In 2008, the contingent consideration has been recalculated based on the latest management's expectation of the profitability of subsidiaries and this resulted in reduction of the contingent consideration to £471,000 calculated using a discount rate of 7 per cent.

21. Provisions for liabilities and charges

	2008			2007		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1 January	**3,925**	**589**	**4,514**	3,237	739	3,976
Amount utilised	**(445)**	**(155)**	**(600)**	(881)	(106)	(987)
Amount released	**–**	**(109)**	**(109)**	(822)	(610)	(1,432)
Provided in financial year	**2,158**	**1,818**	**3,976**	2,391	566	2,957
Balance at 31 December	**5,638**	**2,143**	**7,781**	3,925	589	4,514
Current	**93**	**1,102**	**1,195**	–	339	339
Non-current	**5,545**	**1,041**	**6,586**	3,925	250	4,175
	5,638	**2,143**	**7,781**	3,925	589	4,514

The professional indemnity claim provision relates to ongoing normal legal claims and is the directors' best estimate of the likely outcome of such claims. The provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore most of the provision has been classified as non-current.

The provision for lease obligations relates to obligations under leases on vacant properties. The provision is expected to be fully utilised by November 2014. The final outcome depends upon the ability of the Group to sublet or assign the lease over the related properties.

22. Obligations under leases

Operating leases

The Group had annual commitments in respect of non-cancellable operating leases for which no provision has been made in these financial statements (other than the onerous lease provision as disclosed in Note 21). Future minimum rentals payable under these operating leases are as follows:

	2008 Land and building £'000	**2008 Plant and machinery £'000**	**2008 Total £'000**	2007 Land and building £'000	2007 Plant and machinery £'000	2007 Total £'000
No later than one year	**6,849**	**1,597**	**8,446**	7,001	2,186	9,187
After one year but not more than five years	**20,478**	**915**	**21,393**	20,847	2,236	23,083
After five years	**13,725**	**–**	**13,725**	15,431	–	15,431
	41,052	**2,512**	**43,564**	43,279	4,422	47,701

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

	2008 Land and buildings £'000	2007 Land and buildings £'000
Not later than one year	**296**	622
After one year but not more than five years	**779**	1,803
After five years	**546**	903
	1,621	3,328

23. Share capital

	2008 Shares	**2008 £'000**	2007 Shares	2007 £'000
Authorised:				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1 January and 31 December	**104,158,950**	**208**	104,158,950	208

24. Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Investment in treasury shares £'000	Unrealised gains reserve £'000	Retained earnings £'000	Total equity £'000	Minority interest £'000	Total £'000
At 1 January 2007	**208**	**5,629**	**13**	**(298)**	**–**	**20,414**	**25,966**	**–**	**25,966**
Purchase of treasury shares	–	–	–	(2,371)	–	–	(2,371)	–	(2,371)
Share-based payments	–	–	547	–	–	–	547	–	547
Revaluation of available-for-sale financial assets	–	–	–	–	5,500	–	5,500	–	5,500
Dividend paid	–	–	–	–	–	(3,124)	(3,124)	–	(3,124)
Profit for the year	–	–	–	–	–	16,420	16,420	–	16,420
At 1 January 2008	**208**	**5,629**	**560**	**(2,669)**	**5,500**	**33,710**	**42,938**	**–**	**42,938**
Purchase of treasury shares	**–**	**–**	**–**	**(265)**	**–**	**–**	**(265)**	**–**	**(265)**
Share-based payments	**–**	**–**	**(29)**	**–**	**–**	**–**	**(29)**	**–**	**(29)**
Revaluation of available-for-sale financial assets	**–**	**–**	**–**	**–**	**(1,600)**	**–**	**(1,600)**	**–**	**(1,600)**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(3,966)**	**(3,966)**	**–**	**(3,966)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(3,349)**	**(3,349)**	**–**	**(3,349)**
Balance at 31 December 2008	**208**	**5,629**	**531**	**(2,934)**	**3,900**	**26,395**	**33,729**	**–**	**33,729**

Share premium

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

Share-based payment reserve

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

Investment in treasury shares

The Company has an Employee Share Trust (ESOT) for the granting of group shares to executives and senior employees. The Company acquired 147,219 of its own shares via the trust in November 2006. The total amount paid to acquire the shares was £297,920. The market value of the shares held by ESOT on 20 February 2009 was £92,012 (25 February 2008: £157,156). The nominal value of each share is 0.2p.

The Company also has an Employee Benefit Trust (EBT) for the granting of group shares under the employee SAYE scheme. The Company acquired 1,000,000 of its own shares via the trust in August 2007 and 200,000 of its own shares via the trust in March 2008. The total amount paid to acquire the shares was £2,636,000. The market value of the shares held by EBT on 26 February 2009 was £768,000 (25 February 2008: £1,067,500). The nominal value of each share is 0.2p.

Unrealised gains reserve

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

25. Pensions costs and commitments

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

The Group, in 2008, made a contribution of a maximum of 5% of pensionable salaries and the cost of death-in-service benefits, where 'old' members of the existing defined contribution scheme, make contributions to the scheme.

The Group's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Group left the Aviva group in 2004) were 10% of pensionable salaries until the end of July 2007 where members contribute and the cost of the death-in-service benefits. From August 2007 the Group's contributions for these 'new' members of the defined contribution stakeholder scheme reverted to a maximum 5% of pensionable salaries where members contribute, and the cost of the death-in-service benefits.

Total contributions to the defined contribution schemes in the year were £2.1m (2007: £1.9m).

There was an outstanding amount of £199,000 in respect of pensions as at 31 December 2008 (2007: £358,000).

26. Acquisitions during the year

Year ended 31 December 2008

On February 2008, the Group acquired the minority interest (4%) in property-careers.com Limited for a cash consideration of £126,000, and the minority interest (26.5%) in Linear Financial Services Holdings Limited for a cash consideration of £150,000.

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

	Fair value £'000
Goodwill arising on acquisition	**276**
Discharged by:	
Cash	**276**

Year ended 31 December 2007

In 2007 the Group acquired the following:

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

† acquired through LSLi Limited (75% subsidiary)

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

For acquisitions made by the Group during 2007, the date of acquisition and percentage of voting equity instrument acquired were shown as follows:

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

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

26. Acquisitions during the year (continued)

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

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

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

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

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

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

27. Client monies

As at 31 December 2008, client monies held by subsidiaries in approved bank accounts amounted to £21,423,033 (2007: £17,886,591). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet, as the Group is not entitled to the benefit from the use of the amount held in these accounts.

28. Financial instruments – risk management

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

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

It is, and has been throughout 2008 and 2007 the Group's policy that trading in derivatives shall not be undertaken, apart from the interest rate cap products mentioned above.

28. Financial instruments – risk management (continued)

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

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

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

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

Cash flow interest rate risk

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

It is currently the Group policy that the majority of external Group borrowings are variable interest based. This policy is managed centrally. Operations are not permitted to borrow from external sources. Where the Group wishes to fix the amount of external variable rate debt, it considers the use of cap products available to achieve the desired interest rate profile. The Group purchased an interest rate cap in September 2004 to protect itself against fluctuating interest rates on £25.9m of the Group's borrowings initially (reducing in line with the loan repayments). The borrowings tied to this cap were repaid in July 2006. This cap restricts the LIBOR to 6% until 30 September 2006 and 6.5% until 30 September 2007. The cap expired on 30 September 2007.

The Group purchased a further interest rate cap in August 2006 to protect itself against fluctuating interest rates on £30m of the Group's borrowings initially (reducing in line with the facility). This cap restricts the LIBOR to 6% on £30m of the facility until expiry on 24 August 2009. As at the date of these financial statements, the cap had come into effect in September 2007 as the prevailing LIBOR rose above the 6% rate. Although the Group accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

At 31 December 2008, approximately 7% of the Group's borrowings are at a fixed rate of interest (2007: 6%).

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

	Increase/ decrease in basis point	Effect on loss before tax £'000
2008	**+100**	**(478)**
	-100	**478**
2007	+100	(531)
	-100	531

Liquidity risk

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

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

28. Financial instruments – risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments:

Year ended 31 December 2008

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	631	2,882	51,288	–	**54,801**
Trade and other payables	–	27,564	–	39	–	**27,603**
	–	**28,195**	**2,882**	**51,327**	**–**	**82,404**

Year ended 31 December 2007

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

Capital management

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

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

The Group has a current ratio of net debt to operating profit of 2.7:1 (2007: 1.3:1), net debt of £49.2m (2007: £48.7m) and operating profit before exceptional costs, amortisation and share-based payment charge of £18.2m (2007: £37.2m). The business is cash generative with a low capital expenditure requirement. In light of the unprecedented market conditions in 2008, the Group has suspended the payment of dividend for the current financial year. However, the Group remains committed to its stated dividend policy of 30% to 40% of net profit and dividends will resume once there is transparency of the timing of a recovery of volumes in the UK housing market. The Group's main priority is on preserving and generating cash to support its operations. Given current market conditions and the focus on preserving cash, the Group is unlikely to pursue strategic acquisitions at this stage. However, the Group will continue to review the opportunity for investment in earning enhancing organic growth going forward and at the same time, carefully reviewing the impact on the Group's gearing ratio.

	2008 £'000	2007 £'000
Iterest bearing loans and borrowings	**49,884**	50,990
Less: cash and short term deposit	**(647)**	(2,326)
Net debt	**49,237**	48,664

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

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

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a credit risk in respect of revenue transactions (ie turnover from customers). It is Group policy, implemented locally, to obtain appropriate details of new customers before entering into contracts. The majority of the estate agency customers use the Group's services as part of a house sale transaction and consequently the debt is paid from the proceeds realised from the sale of the house by the vendor's solicitor before the balance of funds is transferred to the vendor. In addition, during the year, the Group entered into a third party finance arrangement for the payment of HIPs. Any trade receivables arising from HIPs were paid upfront by the third party finance company with no recourse. These minimise the risk of the debt not being collected.

28. Financial instruments – risk management (continued)

Credit risk (continued)

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

Interest rate risk profile of financial assets and liabilities

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

The interest rate profile of the financial assets and liabilities of the Group as at 31 December 2008 is as follows:

Fixed rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Unsecured loans	(1,072)	(74)	–	–	–	–	(1,146)
Cash-settled share-based payment	–	(153)	–	(100)	–	–	(253)
Interest rate cap	13	–	–	–	–	–	13

Floating rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and cash equivalents	647	–	–	–	–	–	647
Revolving credit facility	–	–	(47,772)	–	–	–	(47,772)
Unsecured loans	(201)	(41)	–	–	–	–	(242)

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

	Effective rate and actual rate
Revolving credit facility	7.88%
Other unsecured loans	6.31%
Other secured loans	1.94%
Unsecured loan notes	5.00%
Unsecured bank loan	10.00%

The interest rate profile of the financial assets and liabilities of the Group as at 31 December 2007 is as follows:

Fixed rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Unsecured loans	(136)	(1,033)	(10)	–	–	–	(1,179)
Cash-settled share-based payment	–	–	(69)	–	(34)	–	(103)
Interest rate cap	22	12	–	–	–	–	34

Floating rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and cash equivalents	2,326	–	–	–	–	–	2,326
Revolving credit facility	(16,948)	(17,000)	(13,501)	–	–	–	(47,449)
Secured loans	(75)	–	–	–	–	–	(75)
Unsecured loans	(191)	(191)	(31)	–	–	–	(413)

28. Financial instruments – risk management (continued)

Interest rate risk profile of financial assets and liabilities

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

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

Fair values of financial assets and financial liabilities

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

	2008		2007	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**647**	**647**	2,326	2,326
Interest rate cap	**13**	**13**	34	34
Available-for-sale financial asset	**4,052**	**4,052**	5,650	5,650
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(48,014)**	**(48,014)**	(47,937)	(47,937)
Fixed rate borrowings	**(1,146)**	**(1,100)**	(1,282)	(1,260)
Cash settled share-based payment	**(253)**	**(253)**	(103)	(103)
Contingent consideration	**(471)**	**(451)**	(1,771)	(1,750)

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

29. Related party transactions

Consultancy fees and reimbursement of expenses to non-executive directors (net of VAT) during 2008 was £2,415 (2007: £2,418). No amount was outstanding by the Group as at 31 December 2008 (2007: £nil).

There were no other related party transactions with directors in the year ended 31 December 2008 (2007: £nil) other than the remuneration paid to the directors as disclosed in note 12.

30. Capital commitments

	2008 £'000	2007 £'000
Capital expenditure contracted for but not provided	**91**	169

31. Principal subsidiary companies

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

Name of subsidiary company	Holding	Proportion of nominal value of shares held	Nature of business
your-move.co.uk Limited	Ordinary shares	100%	Estate agency and related activities
e.surv limited *	Ordinary shares	100%	Surveying and valuation services
Homefast Property Services Limited (formerly Homefast Property Lawyers Limited)	Ordinary shares	77.5%	Provider of Home Information Packs
property-careers.com Limited	Ordinary shares	100%	Training services
First Complete Limited	Ordinary shares	100%	Financial services
Reeds Rains Limited *	Ordinary shares	100%	Estate agency and related activities
Linear Mortgage Network Limited	Ordinary shares	65%	Mortgage services
Linear Financial Services Limited	Ordinary shares	86%	Mortgage services
Chancellors Associates Limited	Ordinary shares	100%	Surveying and valuation services
LSLi Limited*	Ordinary shares	75%	Holding company
ICIEA Limited	Ordinary shares	87.5%	Estate agency and related activities
Barnwoods Limited*	Ordinary shares	95%	Surveying and valuation services
David Frost Estate Agents Limited	Ordinary 'A' shares Ordinary 'B' shares Non cumulative preference redeemable shares	100%	Estate agency and related activities
JNP Estate Agents Limited	Ordinary shares Ordinary 'B' shares Ordinary 'C' shares	80%	Estate agency and related activities

* held directly by the Company

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

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

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

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Independent Auditors' Report to the Members of LSL Property Services plc

We have audited the parent company financial statements of LSL Property Services plc for the year ended 31 December 2008 which comprise the Company balance sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of LSL Property Services plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Parent Company Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, Business Review, the Corporate Governance Report and the Corporate Social Responsibility Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
Leeds

4 March 2009

Parent company balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible fixed assets	3	**6**	8
Investments	4	**107,094**	107,992
Other debtors	5	**–**	13
		107,100	108,013
Current assets			
Debtors	5	**37,892**	47,760
Creditors: amounts falling due within one year	6	**53,348**	50,891
Net current liabilities		**(15,456)**	(3,131)
Total assets less current liabilities		**91,644**	104,882
Creditors: amounts falling due after one year	7	**58,942**	63,957
Net assets		**32,702**	40,925
Capital and reserves			
Called up share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share-based payment reserve	11	**329**	463
Reserve for own shares	11	**(2,934)**	(2,669)
Profit and loss account	11	**29,470**	37,294
Equity shareholders' funds		**32,702**	40,925

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

The financial statements were approved by the Board on 4 March 2009 and were signed on its behalf by:

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

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

1. Accounting policies

Basis of preparation of financial statements

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2008. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

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

Taxation

Current Tax

Current tax (UK corporation tax) is provided at amounts expected to be paid (or recovered) using the tax rates and laws that are enacted or substantially enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise for in the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that are enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions costs

The Company operates a defined contribution pension scheme for employees of the Company. The assets of the scheme are invested and managed independently of the finances of the Company. Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

Share-based payment transactions

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

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

1. Accounting policies (continued)

Investment in subsidiaries

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

Treasury shares

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

Financial instruments

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

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

Interest bearing loans and borrowings

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

Interest bearing loans and borrowings (continued)

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

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

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

The directors have taken advantage of FRS29 and have excluded disclosures relating to financial instruments from the financial statements on the basis that the financial instruments of the Company are included within the consolidated financial statements of the Group.

Tangible fixed assets

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

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

Fixture, fittings and computer equipment	–	over 5 years

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

2. Company (loss)/profit for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The loss after tax for the year was £3,858,000 (2007: profit £31,960,000).

3. Tangible fixed assets

As at 31 December 2008

	Fixtures, fittings and computer equipment £'000
Cost	
At 1 January 2008	9
Additions	–
At 31 December 2008	**9**
Depreciation	
At 1 January 2008	1
Charge for the year	2
At 31 December 2008	**3**
Carrying amount	
At 31 December 2008	**6**
At 31 December 2007	8

4. Investments in group undertakings

Details of the subsidiaries held directly and indirectly by the Company are shown in note 31 to the Group financial statements.

	2008 £'000	2007 £'000
At 1 January	**107,992**	105,847
Additions	–	2,145
Adjustment for contingent consideration	**(754)**	–
Adjustments for share-based payment	**(144)**	–
At 31 December	**107,094**	107,992

In 2008, an adjustment of £144,000 decrease (2007: £411,000 increase) on investment in subsidiaries for the share-based payment, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings.

In August 2007, the Company set up LSLi Limited (a 75% subsidiary) to acquire other estate agency companies. The Company has a 'put and call option' on the remaining 25% of the shares in LSLi Limited. In 2007, the Company estimated the payout under the 'call option' to be £754,003 and included the same as a cost of investment. This amount was also included under note 10. In 2008, the Company estimates the payout under the 'call option' to be nil and thus, adjustment to reduce the cost of investment has been made.

In July 2007, the Company paid £950,000 to subscribe for the 95% share capital of Barnwoods Limited.

5. Debtors

	2008 £'000	2007 £'000
Current		
Deferred tax asset (note 8)	**16**	14
Corporation tax debtor	**6,180**	3,642
Other debtors	–	207
Prepayments	**18**	13
Amounts owed by Group undertakings	**31,678**	43,884
	37,892	47,760
Non-current		
Prepayments	–	13

6. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Loans (note 9)	–	16,948
Accruals	**624**	380
Amounts owed to group undertakings	**52,724**	33,563
	53,348	50,891

7. Creditors: amounts falling due after one year

	2008 £'000	2007 £'000
Loans (note 9)	**58,942**	63,106
Contingent consideration	–	754
Accruals	–	97
	58,942	63,957

Contingent consideration

In 2007, £754,000 of contingent consideration was payable to third parties in relation to the acquisition of its subsidiaries during the year. This is payable between three and five years after the acquisition dates. The consideration was recorded at a fair value of on acquisition using a discount rate of 7 per cent since it was considered, that payment was probable and can be measured reliably. In 2008, the Company's estimate of the contingent consideration is nil.

8. Deferred tax asset

	2008 £'000	2007 £'000
Deferred tax asset at 1 January	**14**	48
Deferred tax credit/(charge) in income statement for the year	**2**	(34)
Deferred tax asset at 31 December	**16**	14

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

9. Loans

	2008 £'000	2007 £'000
Amounts falling due		
In one year or less	–	16,948
In more than one year but not more than two years	**58,942**	63,106
	58,942	80,054

Secured bank loans – Revolving credit facility

The secured bank loans totalling £58.9m (2007: £80m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions Limited, First Complete Limited and its subsidiaries, property-careers.com Limited, Chancellors Associates Limited and LSLi Limited and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2007: £95m). The banking facility expires in July 2010 but can be extended at that date until July 2011 only at the option of the Company.

The interest rate applicable to the facility is LIBOR plus a margin rate of 2.0% (2007: 0.65%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

10. Called up share capital

	2008 Shares	£'000	2007 Shares	£'000
Authorised				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1 January and 31 December	**104,158,950**	**208**	104,158,950	208

11. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Reserve for own shares £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	208	5,629	13	(298)	8,458	14,010
Share-based payments	–	–	450	–	–	450
Purchase of treasury shares	–	–	–	(2,371)	–	(2,371)
Dividend paid	–	–	–	–	(3,124)	(3,124)
Profit for the year	–	–	–	–	31,960	31,960
Balance at 31 December 2007	208	5,629	463	(2,669)	37,294	40,925
Share-based payments	–	–	(134)	–	–	(134)
Purchase of treasury shares	–	–	–	(265)	–	(265)
Dividend paid	–	–	–	–	(3,966)	(3,966)
Profit for the year	–	–	–	–	(3,858)	(3,858)
Balance at 31 December 2008	**208**	**5,629**	**329**	**(2,934)**	**29,470**	**32,702**

For a description of the reserves refer to note 24 of the Group financial statements.

Share premium

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

Share-based payment reserve

This represents the amount provided in the year in respect of share awards. The Company operates a Long Term Incentive Plan and a number of Save As You Earn schemes for the employees in the Company and the Group. See note 12 of the Group financial statements for detail of the Long Term Incentive Plan and the Save As You Earn schemes.

12. Pensions costs and commitments

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

The Company's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2008, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits.

The Company's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Company left the Aviva group in 2004) were 10% of pensionable salaries until the end of July 2007 where members contribute and the cost of the death-in-service benefits. From August 2007 the Company's contributions for these 'new' members of the defined contribution stakeholder scheme reverted to 5% of pensionable salaries where members contribute, and the cost of the death-in-service benefits.

Total contributions to the defined contribution schemes in the year were £15,694 (2007: £56,038).

There were no outstanding amounts in respect of pensions as at 31 December 2008 (2007: £nil).

13 Related party transactions

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

14. Capital commitments

The Company had no capital commitments as at 31 December 2008 (2007: none).

Definitions

"Adjusted Basic Earnings Per Share"
Is defined at note 10 of the Financial Statements

"AGM"
Annual General Meeting

"Barnwoods"
Barnwoods Limited

"C&G"
Cheltenham & Gloucester

"Chancellors Associates"
Chancellors Associates Limited

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

"Company"
LSL Property Services plc

"EPC"
Energy performance certificate

"e.surv"
e.surv Limited

"First Complete"
First Complete Limited

"Frosts"
David Frost Estate Agents Limited

"HIP"
Home Information Pack

"Intercounty"
ICIEA Limited

"IFRS"
International Financial Reporting Standards

"JNP"
JNP Estate Agents Limited

"Linear"
Linear Mortgage Network and Linear Financial Services

"Linear Financial Services"
Linear Financial Services Limited

"Linear Mortgage Network"
Linear Mortgage Network Limited

"LSLi"
LSLi Limited and its subsidiaries JNP, Intercounty and Frosts

"LSL" or "Group"
The Company and its subsidiaries

"LSL" or "LSL Corporate Client Department"
is a trading name of First Complete

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

"Openwork"
Openwork Holdings Limited

"property-careers.com"
Property-careers.com Limited

"Reeds Rains"
Reeds Rains Limited

"Underlying Operating Profit/Loss"
is before exceptional costs, amortisation of intangible assets and share based payments

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

Investor Information

Company details

LSL Property Services Plc

Registered in England (Company Number 5114014)
Registered Office
Newcastle House, Albany Court, Newcastle Business Park, Newcastle Upon Tyne, NE4 7YB
Telephone 01904 715324
Facsimile 01904 715354
E-mail enquiries@lslps.co.uk
Website www.lslps.co.uk

Share listing

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

Registrar

Capita Registrars
Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA United Kingdom
Telephone 0871664 0300 (calls cost 10p per minute plus network extras)
Facsimile 01484 600911
Website www.capitaregistrars.com
Email shareholder.services@capitaregistrars.com

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

Provisional calendar of events

Preliminary Results Released	**4 March 2009**
AGM Proxy Form Deadline	**2.30pm on 20 April 2009**
AGM	**2.30pm 22 April 2009**

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

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

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

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

LSL Property Services plc
Registered in England (Company Number 5114014)
Registered Office:
Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB

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