



Press Release

23 March 2011

Lighthouse Group plc

("Lighthouse" or "the Group")

Preliminary Results

Lighthouse Group plc (AIM:LGT), financial advisers, today announces preliminary results for the year ended 31 December 2010.

Highlights

- Revenue up 4% to £63.1 million
- Recurring revenues increased by 7% to £17.6 million and now comprise 28% of Group revenues
- EBITDA up 22% to £1.32 million before non-recurring operating expenses of £164,000
- Net cash balances up 27% to £11.2 million
- Profit on sale of Pensions Division of £1.24 million
- Basic earnings per share of 1.14p
- Total dividends for the year up 20% to 0.36p per share on annualised basis
- Further affinity relationships established
- RDR preparations continuing

Commenting on the results, David Hickey, Executive Chairman of Lighthouse Group plc, said: "The Board is pleased with the Group's strong performance during the year. In particular, we have improved profitability and added to our already significant cash resources. During the period we have also focused on improving the quality of earnings by further increasing recurring revenues.

"We are pursuing both organic growth through developing our affinity relationships, as well as continuing to assess acquisition opportunities. The Board is satisfied that the Group remains operationally well positioned and financially robust."

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Chairman's statement

Overview

During the year the Group focused on preparing for implementation of the Retail Distribution Implementation Programme, continued to streamline its operations and increased the level of its recurring revenues and cash reserves.

Revenues rose steadily despite a reduction in the number of advisers and administration costs were further contained with the result that EBITDA before non-recurring items rose by 22%. In an industry with tight profit margins, this was a creditable outcome. In addition the SIPP and SSAS administration businesses ("the Pensions Division") were sold mid-way through the year, reducing the administrative and regulatory burden and further boosting cash reserves.

| Trading Highlights | 2010 | 2009 Restated |
|--|---------------|------------------|
| Revenue | £63.1m | £60.7m |
| Operating costs (before non-recurring items) * | £14.4m | £14.7m |
| EBITDA ** | £1.32m | £1.08m |
| Gain on disposal of pensions administration businesses | £1.24m | - |
| Earnings per share (basic) | 1.14p | 0.12p |
| Dividend per share *** | 0.36p | 0.30p |

* As restated to include employed adviser staff costs in cost of sales - no impact on results as previously reported.

**Earnings before interest, tax, depreciation, amortisation and non-recurring items.

***As declared in respect of the year (2009 excluding 0.1p in respect of earlier periods).

Results

Stable financial markets assisted the investment and pensions marketplace, which in aggregate accounted for some 75 per cent. of Group revenues in both 2010 and 2009. Protection business remained static at approximately 15 per cent., as did mortgages at approximately 4 per cent. While the average number of advisers declined from 896 in 2009 to 810 in 2010, the average revenue produced per adviser rose as lower performers left the Group.

Gross margins (as restated now being after deduction of adviser salaries previously included within operating expenses) fell from 26 per cent. to 25 per cent. This was due to the lower margins in, and the increased proportion of revenues produced by, network operations together with the disposal of the Pensions Division. Operating expenses (as restated to include adviser salaries in cost of sales) fell by £266,000 to £14.4 million; however as a percentage of turnover they dropped from 24 per cent. in 2009 to 23 per cent. in 2010, reflecting close management of controllable costs.

As a consequence of rising revenues and largely static margins and costs, EBITDA, which broadly reflects cash profits, increased by 22 per cent. to £1.32 million (a 23 per cent. increase on a like for like basis excluding the results of the Pensions Division).

A pre tax profit of £129,000 (2009: £93,000) was recorded after deducting non-recurring operating expenses of £164,000 (2009: £Nil), depreciation and amortisation charges of £973,000 (2009: £941,000) and a net interest charge of £55,000 (2009: £47,000). After a credit for taxation of £161,000 (2009: £124,000) and the gain on disposal of the Pensions Division of £1.24 million, a profit for the year of £1.53 million was achieved (2009: £217,000).

Recurring Income

Revenues derived from recurring services provided to clients have many attractive features for the clients themselves, as well as for advisers and the Group. Accordingly the Board continues to emphasise this form of income. During the year gross recurring income rose to £17.6 million from £16.4 million in 2009 and now represent approximately 28 per cent. of total Group revenues.

Balance Sheet

Year end cash balances rose to £13.9 million from £13.4 million at the end of 2009. Net of the five year trading facility with LV= (which will be fully repaid by May 2012), cash balances rose to £11 million from £9 million. Over half of the net balances are currently required for regulatory capital purposes, with an additional proportion reserved for working capital movements. The Group continues to have no bank debt.

Your Board continues to believe that financial strength is an essential prerequisite to doing business in the industry, being in the interests of clients, shareholders and advisers, and remains determined to preserve the current robust and liquid balance sheet.

Sale of the Pensions Division

In August 2010 the Group announced the sale of City Trustees and City Pensions for a gross cash consideration of £2.14 million, payable on completion. While the entities had traded steadily since being acquired as part of the £2.7 million Carrwood transaction in 2005, they remained sub scale and were not seen by the Board as core to the Group. The proceeds were added to the Group's existing cash resources, and the gain arising (after deducting disposal costs) was treated as non-recurring.

Dividends

In recognition of continued confidence in both the prospects for, and financial strength of, the Group the Board is recommending a final dividend of 0.24p per share, making a total dividend for 2010 of 0.36p per share. This compares to the total 2009 normalised figure of 0.3p. Subject to approval at the Annual General Meeting on 1 June 2011 the dividend will be paid on 30 June 2011 to shareholders on the register at close of business on 10 June 2011.

Operational and Branding Restructure

During the year, the Group was re-configured to streamline its services and maximise efficiencies. It now comprises three (2009: two) operating segments:

1. **Lighthouse Financial Advice** ("LFA"): this comprises the former Temple and GP National sub-divisions, and focuses on procuring new business leads for Lighthouse branded self employed advisers, assisted and monitored by Regional Directors. Margins are strong with particularly close Group proximity to clients, resulting in a growing database of active accounts;
2. **Lighthouse Advisory Services and FSAS**; this encompasses all the Group's Network offerings including those previously branded as Falcon and Xpress. It offers services to self employed advisers through a number of offerings designed primarily to assist their back office operations, to provide professional indemnity insurance for them and to assist them in complying with their regulatory obligations; and
3. **Specialist Services**: LighthouseCarrwood and Lighthouse Group Employee Benefits together offer independent advice to the accountancy market, high net worth individuals and the corporate market, all through an employed adviser base. This segment produces good margins, has a

healthy bias towards fees and recurring revenues and is well placed to benefit from the government's auto enrolment initiative.

New Business Leads

The Group's new client procurement capability is growing in importance as a differentiator and the Group is seeing increasing demand for such provision from both existing and new advisers. Accordingly much emphasis is now being placed on developing further the Group's connections with major employers and other affinity groups, many of which require financial advice for their employees and members.

The Group announced in March 2010 that, following a competitive interview process, it had been exclusively contracted to advise employees of the Royal Mint. In July 2010 the Group announced that it had been appointed as the sole approved provider of financial advice to the members of UNISON, the UK's largest public sector trade union, and another similar announcement will be made shortly. These contract wins are indicative of a number of similar arrangements already in place with other entities, and the Group expects additional contract wins of this nature in the future.

Lighthouse is now a leading adviser in the affinity arena and it remains a strategic objective for affinity driven business to form a greater proportion of the Group's activity levels in the future.

Retail Distribution Implementation Programme ("RDIP")

The Group continues to plan for implementation on the timescales and in the shape set out by the regulator. As before, the principal effects of the RDIP are expected to be further and earlier clarification to clients of all charges relating to product sales and advice, a reduction in the number of qualified advisers allowed to practice and considerable disruption in remuneration processes following the removal of initial commission on investment and pension products, all with effect from 1 January 2013.

Empowerment of clients could see a reduction in adviser remuneration per case. This is likely to be balanced by advisers seeking to increase their client numbers and streamlining their procedures. In anticipation of this, and as described earlier in this statement, the Group has been growing its client sourcing activities, especially for those advisers within LFA, and will continue to expand this capability for new and existing LFA advisers.

At the same time the Group has been assisting its advisers in preparing for the expected new professional qualification requirement. Currently, approximately 73 per cent. of the Group's advisers are sufficiently qualified or have embarked on courses designed to secure the qualifications within the expected timescales, and the remaining 27 per cent. are considering whether to qualify, and, if not, how they might otherwise operate their business in the post RDIP world. The Group will continue to work closely with all of its advisers to assist their transformation.

Strategy and Prospects

Some two thirds by value of retail financial products continue to pass through the IFA channel making it a crucial route to market for savings and protection products in the UK. However the impending changes in the regulatory regime and the related environment, allied to the increasing propensity towards consumer protection and dramatic increases in imposed financial levies, have together made for a challenging new business environment for advisers, their host organisations and product manufacturers alike.

As things stand, many advisers are expecting to have to leave the industry at the end of 2012, whether due to insufficient time to secure the new qualification requirements or expected economic pressures. There is presently little sign of new professionals arriving in any significant volumes.

Successful organisations in the post RDIP environment will have to be financially robust, regulatory compliant and will require a suite of services valued by advisers and clients alike. With a strong balance sheet and significant recurring earnings, a strong focus on risk minimisation and a growing set of new client relationship entities, Lighthouse should be well positioned against a challenging background.

In the meantime and since the year end, the Group has continued to trade in line with expectations and the Board looks forward to reporting further progress for the current year.

Finally, I would like to express my thanks to our advisers for their professionalism and loyalty to the Group, and to all my fellow employees and directors for their contributions during the year.

David Hickey
Executive Chairman
23 March 2011

Lighthouse Group plc

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

| | Note | 2010 | 2009 (restated) |
|--|------|-----------------|--------------------|
| | | £'000 | £'000 |
| Revenue | | 63,125 | 60,738 |
| Cost of sales | | (47,368) | (44,955) |
| Gross profit | | 15,757 | 15,783 |
| Administrative expenses | | | |
| Other operating expenses | | (14,436) | (14,702) |
| <i>Earnings before interest, tax, depreciation, amortisation and non-recurring items</i> | | 1,321 | 1,081 |
| Non-recurring operating expenses | | (164) | - |
| Total operating expenses | | (14,600) | (14,702) |
| Impairment charge on goodwill and intangibles | | - | - |
| Depreciation and amortisation | | (973) | (941) |
| Total administrative expenses | | (15,573) | (15,643) |
| Operating profit | | 184 | 140 |
| Finance revenue | | 64 | 70 |
| Finance costs | | (119) | (117) |
| Profit before taxation | | 129 | 93 |
| Tax credit | | 161 | 124 |
| Gain on disposal of subsidiary undertakings | | 1,236 | - |
| Profit for the year | | 1,526 | 217 |
| Other comprehensive income: | | | |
| Gain in fair value of available for sale financial asset | | 15 | 21 |
| Total comprehensive income for the year | | 1,541 | 238 |
| Profit for the year attributable to: | | | |
| Equity holders of the parent | | 1,452 | 154 |
| Non-controlling interest | | 74 | 63 |
| | | 1,526 | 217 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | | 1,467 | 175 |

| | | | |
|---------------------------------|----------|--------------|-------|
| Non-controlling interest | | 74 | 63 |
| | | 1,541 | 238 |
| Basic earnings per share | 3 | 1.14p | 0.12p |
| Diluted earnings per share | 3 | 1.13p | 0.11p |

All activities are classed as continuing.

The amounts reported for cost of sales and administrative expenses for 2009 have been increased and decreased by £1,530,000 respectively from those previously reported. There was no other impact on the results as previously reported.

The attached notes form an integral part of this preliminary financial information.

| | | | | | | | | | |
|--------------------------------|---------|---------|---------|-------|---------|-------|--------|------|--------|
| appointment of shares | | | | | | | | | |
| previously held within the EBT | - | - | - | - | (1,471) | 1,471 | - | - | - |
| Bonus issue | 3,301 | - | (3,301) | - | - | - | - | - | - |
| Cancellation of bonus issue | (3,301) | - | - | - | - | 3,301 | - | - | - |
| Re-balancing of merger | - | - | 516 | - | - | (516) | - | - | - |
| reserve | | | | | | | | | |
| Reduction in share premium | - | (5,696) | - | - | - | 5,696 | - | - | - |
| account | | | | | | | | | |
| Share based payment | - | - | - | - | 176 | - | 176 | - | 176 |
| Dividends paid | - | - | - | - | - | (255) | (255) | (80) | (335) |
| At 31 December 2009 | 1,277 | - | - | 1,999 | 874 | 8,601 | 12,751 | 90 | 12,841 |

The attached notes form an integral part of this preliminary financial information.

Lighthouse Group plc
Statement of Financial Position at 31 December 2010

| | Group | |
|---------------------------------------|---------------|--------|
| | 2010 | 2009 |
| | £'000 | £'000 |
| Assets | | |
| Non current assets | | |
| Intangible assets | 11,228 | 12,034 |
| Property, plant and equipment | 202 | 274 |
| Available for sale investments | 135 | 120 |
| | 11,565 | 12,428 |
| Current assets | | |
| Trade and other receivables | 7,724 | 8,274 |
| Cash and cash equivalents | 13,924 | 13,353 |
| | 21,648 | 21,627 |
| Total assets | 33,213 | 34,055 |
| Current liabilities | | |
| Trade and other payables | 10,198 | 10,515 |
| Provisions | 4,246 | 2,811 |
| | 14,444 | 13,326 |
| Non current liabilities | | |
| Trade and other payables | 912 | 2,856 |
| Deferred tax liabilities | 1,366 | 1,585 |
| Provisions | 2,531 | 3,447 |
| | 4,809 | 7,888 |
| Total liabilities | 19,253 | 21,214 |
| Net assets | 13,960 | 12,841 |
| Capital and reserves | | |
| Called up share capital | 1,277 | 1,277 |
| Special non distributable reserve | 1,999 | 1,999 |
| Other reserves - share based payments | 919 | 874 |
| Retained earnings | 9,659 | 8,601 |

| | | |
|---|---------------|--------|
| Total equity attributable to equity holders of the Company | 13,854 | 12,751 |
| Non-controlling interest | 106 | 90 |
| Total equity | 13,960 | 12,841 |

The attached notes form an integral part of this preliminary financial information.
Company registered number 04042743

Lighthouse Group plc**Consolidated Statement of Cash Flows for the year ended 31 December 2010**

| | 2010 | 2009 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Operating activities | | |
| Group profit before tax for the year | 129 | 93 |
| <i>Adjustments to reconcile profit for the year to net cash inflows from operating activities</i> | | |
| Finance revenues | (64) | (70) |
| Finance costs | 119 | 117 |
| Loss on disposal of property, plant and equipment | 2 | 5 |
| Depreciation of property, plant and equipment | 200 | 168 |
| Amortisation of intangible assets | 773 | 773 |
| Share based payments | 45 | 176 |
| Change in trade and other receivables | 270 | (3,028) |
| Change in trade and other payables | (128) | 93 |
| Change in provisions | 269 | 3,520 |
| Cash generated from operations | 1,615 | 1,847 |
| Finance costs paid | (121) | (127) |
| Income taxes received/(paid) | 102 | (150) |
| Net cash inflow from operating activities | 1,596 | 1,570 |
| Investing activities | | |
| Payments to acquire trade and certain assets under business combination | (144) | (180) |
| Proceeds from disposal of subsidiary undertakings net of cash disposed of | 1,452 | - |
| Purchase of property, plant and equipment | (130) | (61) |
| Finance revenues received | 64 | 70 |
| Net cash inflow/(outflow) from investing activities | 1,242 | (171) |
| Financing activities | | |
| Repayments of trade facility | (1,800) | - |
| Dividends paid to equity shareholders | (409) | (255) |

| | | |
|---|----------------|--------------|
| Dividends paid to non-controlling interest | (58) | (80) |
| Net cash outflow from financing activities | (2,267) | (335) |
| Increase in cash and cash equivalents | 571 | 1,064 |
| Cash and cash equivalents at the beginning of the year | 13,353 | 12,289 |
| Cash and cash equivalents at the end of the year | 13,924 | 13,353 |

The attached notes form an integral part of this preliminary financial information.

Lighthouse Group plc

Notes to the preliminary financial information for the year ended 31 December 2010

1. Basis of preparation

The preliminary financial information, which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Statements of Changes in Equity, the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows of the Group together with the related explanatory notes has been prepared on the basis of the accounting policies as set out in the audited financial statements for the year ended 31 December 2010 and International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board as adopted for use in the EU ("IFRS").

During 2010 the Group has adopted amendments to IFRS 3 - Business Combinations (2008) and IAS 27 - Consolidated and separate financial statements which have required acquisition related cost incurred in respect of acquisitions arising on or after 1 July 2009 to be expensed rather than being included in the calculation of goodwill or intangible assets and required changes to disclosure and presentation. These changes have not resulted in any material changes to the Group's financial statements as previously reported.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Revenue and segment reporting

The revenue and profit/(loss) before taxation are wholly attributable to the principal activity of the Group and relate to services provided in the United Kingdom. All of the Group's principal segments provide financial advice on and distribute similar financial products and there is no geographical basis to differentiate any particular segments.

The Board, as the Chief Operating Decision Maker of the Group, has identified three business components as comprising reportable operating segments as defined in IFRS 8, being its National, Network and Specialist Services operations. This is a change from the identification in prior years when only two such components were identified – being National and Network – and arose as a result of the strategic review of the Group's business undertaken during 2010 in the light of the developing economic and regulatory environment within which the Group operates. The measurement of segment profit that is reviewed by the CODM is Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before non-recurring items.

Whilst the three segments advise on and distribute similar retail financial products to similar client populations within and across the UK, those advisers within the National business component are provided with more business support in terms of seminar activity, affinity relationships and other forms of lead generation and are typically registered individuals more closely managed and mentored by group management. The amounts retained by the Group to provide such support are accordingly greater than in the Network segment, which typically comprises business written by advisers that do not require such levels of support. The Specialist Services segment provides advice to high net worth individuals and corporates through its employed adviser base.

Inter-segment transactions are accounted for at current market prices as if the transactions were with third parties.

Segment information is as follows:

| | National | Network | Specialist Services | Other segments | Total |
|---|-----------------|-----------------|--------------------------------|---------------------------|-----------------|
| Year ended 31 December 2010 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total revenues | 16,229 | 62,583 | 4,117 | - | 82,929 |
| Less inter-segment revenues | - | (19,804) | - | - | (19,804) |
| External revenues | 16,229 | 42,779 | 4,117 | - | 63,125 |
| Cost of sales and other operating expenses | (14,723) | (40,998) | (4,042) | (2,041) | (61,804) |

| | | | | | |
|---|--------------|--------------|-----------|----------------|--------------|
| Earnings before interest, tax, depreciation and amortisation | 1,506 | 1,781 | 75 | (2,041) | 1,321 |
| Non-recurring operating expenses | | | | | (164) |
| Depreciation and amortisation | | | | | (973) |
| Operating profit | | | | | 184 |
| Finance revenues | | | | | 64 |
| Finance costs | | | | | (119) |
| Profit for the year | | | | | 129 |

| | National | Network | Specialist Services | Other segments | Total |
|---|--------------|--------------|---------------------|----------------|--------------|
| Year ended 31 December 2009 (as restated) | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total revenues | 15,265 | 60,342 | 4,433 | - | 80,040 |
| Less inter-segment revenues | - | (19,302) | - | - | (19,302) |
| External revenues | 15,265 | 41,040 | 4,433 | - | 60,738 |
| Cost of sales and other operating expenses | (13,906) | (39,984) | (4,268) | (1,499) | (59,657) |
| Earnings before interest, tax, depreciation and amortisation | 1,359 | 1,056 | 165 | (1,499) | 1,081 |
| Non-recurring operating expenses | | | | | - |
| Depreciation and amortisation | | | | | (941) |
| Operating profit | | | | | 140 |
| Finance revenues | | | | | 70 |
| Finance costs | | | | | (117) |
| Profit for the year | | | | | 93 |

| | National | Network | Specialist Services | Other segments | Total |
|---|------------|------------|---------------------|----------------|------------|
| Year ended 31 December 2008 (as restated) | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total revenues | 13,075 | 54,754 | 5,161 | - | 72,990 |
| Less inter-segment revenues | - | (18,597) | - | - | (18,597) |
| External revenues | 13,075 | 36,157 | 5,161 | - | 54,393 |
| Cost of sales and other operating expenses | (12,096) | (35,365) | (5,044) | (1,335) | (53,840) |
| Earnings before interest, tax, depreciation and amortisation | 979 | 792 | 117 | (1,335) | 553 |

| | |
|---|---------|
| Non-recurring operating expenses | (981) |
| Depreciation and amortisation | (856) |
| Impairment charge on goodwill and intangibles | (7,572) |
| Operating loss | (8,856) |
| Finance revenues | 575 |
| Finance costs | (213) |
| Loss for the year | (8,494) |

Segment assets and liabilities are as follows:

| | 2010 | 2009 | 2008 |
|--|----------|----------|----------|
| | £'000 | £'000 | £'000 |
| | | Restated | Restated |
| Segment assets | | | |
| National | 3,325 | 3,414 | 2,300 |
| Network | 29,973 | 29,682 | 24,957 |
| Specialist Services | 3,630 | 4,436 | 6,791 |
| Other segments and unallocated | 15,383 | 16,254 | 17,162 |
| Total assets including inter segment | 52,311 | 53,786 | 51,210 |
| Inter segment assets | (19,098) | (19,731) | (21,395) |
| Total assets per financial statements | 33,213 | 34,055 | 29,815 |
| Segment liabilities | | | |
| National | 5,095 | 6,810 | 5,739 |
| Network | 17,475 | 16,760 | 12,890 |
| Specialist Services | 1,835 | 2,367 | 4,757 |
| Other segments and unallocated | 13,946 | 15,008 | 15,062 |
| Total liabilities including inter segment | 38,351 | 40,945 | 38,448 |
| Inter segment liabilities | (19,098) | (19,731) | (21,395) |
| Total liabilities per financial statements | 19,253 | 21,214 | 17,053 |

The segmental information relating to the years ended 31 December 2009 and 2008 has been restated to include as a separate reportable operating segment revenues and expenses, assets and liabilities relating to the Specialist Services businesses of the Group, which were previously included within the National operating segment.

3. Earnings per ordinary share

The calculation of earnings per share is based on the earnings attributable to ordinary shareholders of £1,452,000 (2009: £154,000) divided by the weighted average number of shares in issue during the year of 127,700,298 (2009: 127,700,298).

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options of 128,225,397 (2009: 135,904,254).

4. Dividends

The directors recommend the payment of a final dividend of 0.24p per share, totalling £306,000 (2009: a second interim dividend of 0.2p, totalling £256,000), which, subject to approval at the Annual General Meeting, will be paid on 30 June 2011 to shareholders on the register at the close of business on 10 June 2011. With the interim dividend of 0.12p per share paid during the year, this makes a total dividend for 2010 of 0.36p per share (2009: 0.4p per share including 0.1p in respect of prior years).

5. Annual Report

The Annual Report and financial statements will be posted to shareholders on or about 27 April 2011 and will be available from the registered office of the Company at 26 Throgmorton Street, London EC2N 2AN.

- Ends -