LIGHTHOUSEGROUP

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Financial Adviser Life & Pensions awards 2011 Winner Large IFA Firm of the Year

Financial Adviser Life & Pensions awards 2010 Winner Large IFA Firm of the Year

Key facts

Lighthouse Group is an AIM-listed company which provides **financial advice** to **personal and corporate clients** through **600 specialist advisers** located throughout the UK.

During 2011 the Group was named **"Large IFA of the Year" for the second consecutive year**, following a technical assessment by the publication "Financial Adviser".

Lighthouse is a leading adviser in the affinity arena, providing financial advice to **employees of large organisations, trade unions and members of affinity groups**.

In 2011 the Group announced contracts to provide financial planning advice to members of **The Association of Heads and Deputies** (AHDS), the **Civil Service Motoring Association** (CSMA) **Club**, and clients of **Dains Chartered Accountants**.

To date **88 per cent**. of the Group's advisers **are qualified or are uplifting their qualifications** through defined courses of study which will lead to the new benchmark qualification being achieved prior to 1 January 2013, the RDR implementation date.

Recurring revenues now account for over 30 per cent. of total revenue.

The board is recommending a **final dividend of 0.27p per share**, making a **total dividend for 2011 of 0.40p per share**.

Key figures for 2011

Revenue	£60.4 million
Recurring revenues	£18.4 million (up 5%)
EBITDA*	£1.6 million (up 21%)
Net cash balances	£11 million

* before non-recurring items.

CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

Directors

David Hickey	Executive Chairman
Malcolm Streatfield	Chief Executive
Peter Smith	Finance Director
Mark Ross	Risk Director
Richard Last	Non-Executive Director
Alex Scott-Barrett	Non-Executive Director

Secretary
Mark Ross

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Registrars
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CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to report another period of good trading progress for Lighthouse.

2011 saw a substantial increase in the Group's EBITDA profits, despite a modest reduction in revenues, as a consequence of less productive advisers leaving the Group. The 21 per cent. rise in EBITDA was particularly notable and reflected the Group's continued focus on gross margins and quality advisers. The rise in recurring income continued to improve the quality of earnings and the ongoing cash generation of the business continued to support the Group's significant financial strength.

Subsequent to the rationalisation of two of its regulated entities announced earlier in the year, the Group has made provisions for certain aspects of the historical trading of the Sumus sub-group. Both Falcon and FSAS have been effectively wound down as trading entities.

During 2011 the Group was named "Large IFA of the Year", for the second year running, following a competitive technical assessment by the publication "Financial Adviser".

TRADING HIGHLIGHTS

	2011	2010
Revenue	**£60.4m**	£63.1m
Gross profit	**£15.6m**	£15.7m
Operating costs (before non-recurring items)	**£14.0m**	£14.4m
EBITDA*	**£1.6m**	£1.3m
Non-recurring operating expenses	**£3.4m**	£0.2m
Gain on disposal of pensions administration businesses	**–**	£1.2m
Earnings per share:		
Basic before non-recurring operating expenses	**0.72p**	0.30p
Basic after non-recurring operating expenses	**(1.92p)**	1.14p
Dividend per share	**0.40p**	0.36p

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

RESULTS

Revenues and cost of sales fell by 4 and 5 per cent. respectively compared to 2010, reflecting the reduction in average adviser numbers from approximately 800 to 700. Gross profits remained steady (as a percentage of revenues) while administrative expenses before non-recurring costs fell by £474,000 following the reorganisations of the Group's operations. The 21 per cent. rise in EBITDA was particularly notable, and the Group continues its focus on securing further improvement.

Depreciation and amortisation fell from £973,000 to £895,000 reflecting lower levels of capital expenditure in prior periods.

Earnings per share before the impact of non-recurring items amounted to 0.72p (2010: 0.30p). The loss before taxation for the period was £2,657,000 (2010: profit before tax of £129,000) and basic loss per share was 1.92p (2010: profit of 1.14p per share).

NON-RECURRING OPERATING EXPENSES

It was announced early in 2011 that the Group's regulated entities were to be rationalised so as to process all of the Group's business through a single regulated network – Lighthouse Advisory Services ("LASER"). In my statement included with the 2011 Interim Results I reported that Falcon was being wound down as a trading entity, and subsequently the advisers previously with FSAS, the other remaining Sumus sub-group regulated entity, were also transferred into LASER. Both Falcon and FSAS have now effectively ceased trading. There is a small number of advisers who utilise the Falcon brand for trading, and the Group will continue to make this facility available to them.

Subsequent to these rationalisations, and as also announced in the 2011 Interim Results released in September, certain aspects of Falcon's historical trading became the subject of review and, as a consequence, the Board deemed it prudent to recognise an aggregate non-recurring charge of £2.93 million at that stage. Following the closure of FSAS and other related matters, the charge has been increased by £0.44 million to £3.37 million.

RECURRING INCOME

The Board remains keen to improve further the visibility of its revenues and hence places considerable emphasis on recurring revenue. Typically this comprises regular income derived from client investments and other products placed on their behalf. Recurring revenues rose in 2011 to £18.4 million (2010: £17.6 million), an increase of some 5 per cent., and now represent just over 30 per cent. of total Group revenues. In addition, the LighthouseCapital project (which is designed to match investments to a client's risk profile through a streamlined process) is accelerating, and some £250 million has now been placed via this mechanism.

FINANCIAL POSITION

Year end net cash balances (after deduction of a trade finance facility) remained largely unchanged at £11.0 million (2010: £11.2 million) notwithstanding some £500,000 of dividends paid. The final instalment of the trade finance facility, being £900,000, is expected to be retired fully from surplus operating cash flows, in line with expectations, by mid-2012. The Group has no bank debt.

DIVIDENDS

Group trading for 2011 was in line with expectations and the Group's underlying cash generation has remained strong. Accordingly your Board has decided to increase the final dividend for 2011 to 0.27p (2010: 0.24p) to reflect that progress. Subject to approval at the Annual General Meeting on 2 May 2012 the dividend will be paid on 8 June 2012 to shareholders on the register at close of business on 11 May 2012.

While the Group expects to continue paying dividends in the medium term, the potential short-term trading changes expected to arise after 1 January 2013, following the introduction of the Retail Distribution Review, mean that there can be no certainty about the appropriate level of dividend to be paid after that date. Accordingly your Board will continue to review industry trading conditions and prospects and will advise shareholders further, as and when a decision about the appropriate future quantum of dividends is made.

AFFINITY RELATIONSHIPS

The Group continues to develop its connections with major employee, union, and other organisations requiring financial advice for their employees and members, especially for the benefit of the Lighthouse Financial Advice and Carrwood operations. In May and June 2011 the Group announced three and two year exclusive contracts respectively to provide financial planning advice to members of The Association of Heads and Deputies ("AHDS") and the Civil Service Motoring Association ("CSMA") Club. Also in June 2011 the Group signed a contract with Dains Chartered Accountants. Further announcements of new contracts are expected to follow in due course. As a consequence of the Group's success in this arena, the flow of new clients emanating from these relationships continues to grow and in 2011 some 15,000 new business leads generating some 7,000 appointments were directed to Lighthouse Financial Advice advisers; this number is expected to rise significantly in 2012.

"Recurring revenues rose in 2011 to £18.4 million (2010: £17.6 million), an increase of some 5 per cent., and now represent just over 30 per cent. of total Group revenues."

CHAIRMAN'S STATEMENT (continued)

STRATEGY AND PROSPECTS

The Retail Distribution Review ("RDR"), due to come into effect by 1 January 2013, continues to cast a shadow over the retail financial industry. While the principal aims of RDR are to be welcomed, the decision to introduce them all simultaneously on a single date is proving extremely disruptive. Many advisers are devoting substantial business time to academic study and simultaneously their customer and business offerings have to be redesigned. In parallel substantial systems re-alignments are required throughout the industry, for both manufacturers and distributers.

Post-RDR, remuneration for each item of new business could well decline across the industry, some advisers will fail to secure the required qualifications in time and will be unable to carry on advising, recurring income will carry explicit servicing obligations to the client and clients may more easily cancel investment trail payments. In aggregate therefore there will be considerable industry dislocation in early 2013 and possibly beyond.

For many remaining advisers this will require new lines of business and additional clients. It is for this reason that Lighthouse continues to expand its affinity relationships which in turn continually increase the number of prospective new clients available for advisers.

"The Board is satisfied that Lighthouse's scale, new customer flows and financial strength continue to differentiate the Group from most stand-alone organisations in the sector."

While the Board is concerned about the short-term prospects for the industry, and believes that it is too early to be able to give reliable guidance about earnings levels relating to 2013 and beyond, nonetheless the Board is satisfied that Lighthouse's scale, new customer flows and financial strength continue to differentiate the Group from most stand-alone organisations in the sector. Accordingly the Board looks forward to reporting further progress for the current year, and will update shareholders on expected trading prospects thereafter, later in the year.

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

David Hickey
Executive Chairman

12 March 2012

CHIEF EXECUTIVE'S REVIEW

OVERVIEW

2011 saw the completion of the Group's strategic aim to simplify its regulated operations with the migration of Falcon Group Plc and Lighthouse FSAS into the re-branded LighthouseXpress creating Lighthouse Advisory Services (LASER). These migrations created a single streamlined business operating primarily from the Group's Exeter location. The Bristol and Dunfermline locations have been closed as a result.

The Group's trading performance continues to improve with EBITDA rising to £1.6 million from £1.3 million in 2010, a rise of 21 per cent. Group revenue fell by 4 per cent. reflecting a decline in adviser numbers from 2010 primarily as a result of advisers with poor production leaving, and/or choosing individually not to engage in the RDR (Retail Distribution Review) requirements to complete and pass new QCA4 qualifications. The core of the Group's remaining 600 advisers have passed or made significant progress towards passing the new QCA4 qualifications, and the Group continues to assist those in the final stages to a successful completion before the deadline of 31 December 2012.

The LighthouseCapital programme continues to advance with some £250 million of clients' assets held within fund of fund arrangements. This has significantly contributed to the year's increase of £800,000 in recurring revenue, and over 30 per cent. of Group revenue is now on a recurring basis.

OPERATIONS

The Group provides financial advice through approximately 600 advisers (as at 31 December 2011) operating via three business segments. These are:

Lighthouse Financial Advice ("LFA") Lighthouse Advisory Services ("LASER")	National Network
LighthouseCarrwood (Incorporating Lighthouse Group Employee Benefits)	Specialist Services

LFA

LFA contains over 200 self-employed advisers focused on providing financial advice into the Group's affinity relationships. This is done through generating significant seminar, surgery and presentational activity which together with the Group's Brighton-based call centre provided some 15,000 new clients leads (11,500 in 2010).

LASER

LASER authorises and services some 370 self-employed advisers (as well as those located in the other two segments) drawn from the three previously separate entities LighthouseXpress, Falcon Group and LighthouseFSAS which have now been fully integrated. Advisers who are authorised through LASER typically trade under their own brand names. Many employ their own staff and tend to have a variety of back office systems and other technology used in the development of their own business activities, including client management and servicing. Services provided by the Group include regulatory cover, risk management support, research and professional indemnity insurance.

SPECIALIST SERVICES

This segment trades as LighthouseCarrwood and Lighthouse Group Employee Benefits, and comprises 25 salaried advisers servicing high net worth private clients and corporate accounts. These are sourced from key professional connections, primarily accountancy firms and prospective corporate clients. The specialist pension and employee benefit functions within this segment are also available to all advisers across the Group.

CHIEF EXECUTIVE'S REVIEW (contined)

The three segments enable the Group to provide a full service offering to the business needs of advisers and the financial requirements of private and corporate clients. This diversity of approach is a key strength of the Group and each segment is expected to grow through organic recruitment and by selective acquisition, the latter where appropriate in terms of price, cultural fit and risk profile. Further details of segmental financial performance and underlying assets and liabilities are given in Note 3.

The clients served and products advised upon tend not to vary significantly across these segments with the exception of Specialist Services which, as noted above, tends to service higher net worth clients. The main distinction is that advisers within the LFA and Specialist Services segments tend to receive far more focused Group support in terms of new client lead generation through affinity and professional firm relationships, seminar activities and other forms of lead procurement, together with marketing, branding, business and personal development. The last can include training, technology and business mentoring. Thus advisers within these segments have more interaction with, and are more closely managed and mentored by, Group management. As a result of this higher level of support, the gross margin generated in the LFA and Specialist Services arenas is significantly higher than elsewhere.

At 31 December 2011 the Group employed 157 staff of which 25 were salaried advisers working within the Specialist Services segment. The Group operates out of five principal locations with offices in the City of London, Brighton, Exeter, Stockport and Harewood in Yorkshire.

FINANCIAL COMMENTARY

The results of the Group for the year ended 31 December 2011 are set out in the Consolidated Statement of Comprehensive Income on page 22.

REVENUE AND GROSS MARGINS

The second half of 2011 accounted for £29.5 million of the total revenues of £60.4 million for the year and were 3 per cent. lower than the same period in 2010. The effect of 14 per cent. fewer advisers (average for the year) than in 2010 was largely mitigated by average revenues per adviser (excluding recharges) increasing by 11 per cent. to £87,000 in 2011, from £78,000 in 2010.

OPERATING COSTS

Operating costs (excluding non-recurring items) chiefly comprise staff costs (excluding remuneration of salaried advisers), regulatory and insurance costs, as well as other expense categories such as premises, technology and professional costs. These decreased from 2010 levels by £0.5 million reflecting the initial benefits of the re-organisations of LFA and LASER in the past 15 months and the continuing close monitoring and control of expenditure. Together these proactive steps have mitigated the relentless upward pressure from third party costs such as professional indemnity insurance and regulatory charges.

PROFITS

The Group recorded an operating loss of £2.66 million (2010: operating profit of £184,000) after charging non-recurring costs arising from a review of the historical trading of Falcon Group and termination costs arising from the rationalisation of the network regulated entities referred to above amounting to £3.4 million (2010: £164,000 in relation to the rationalisation of the national brands).

NET ASSETS AND TOTAL EQUITY

The Group's net assets decreased by £2.95 million to £11 million, as a result of the non-recurring operating charge of £3.4 million noted above together with the dividend payments amounting to £472,000 and the movements in the share-based payment reserve and non-controllable interest of £32,000 increase (2010: £45,000 increase) and £57,000 decrease (2010: £16,000 increase) respectively.

CASH FLOW, CASH BALANCES AND TREASURY

Cash at bank decreased by £2 million to £11.9 million. Net cash generated by operations amounted to £597,000 (2010: £1.62 million) and contributed to the £1.8 million in scheduled repayment instalments of a trade finance facility, payments in relation to prior period acquisitions of £144,000 and dividends of £472,000, along with other items highlighted in the Consolidated Statement of Cash Flows set out on page 26.

During the year the policy of holding cash resources in a small number of UK clearing institutions on overnight or seven day notice periods, which was introduced in 2008 to protect the Group from potential credit risk arising either from the nature of the counterparty or by exposure to an excessively long term, was re-assessed in the light of the current economic environment and regulatory capital obligations. As a result the majority of the Group's cash resources are now held in three-month rolling deposits and earn interest income at higher rates than previously was the case. Together with the reduction in the trade finance facility, this resulted in a move from net interest cost of £55,000 in 2010 to net interest income of £2,000 in 2011.

As stated in Note 17 to the financial statements, only one payment of the Group's trade facility with LV= remains outstanding and will, as scheduled, be repaid in full on expiry of the facility in May 2012. The total amount outstanding on the facility as at 31 December 2011 amounted to £0.9 million (2010: £2.7 million).

LIGHTHOUSECAPITAL

Progress continued in 2011 and some £250 million has been invested to 31 December 2011 (2010: £170 million) through the fund and investment management groups linked to the Capital programme, mainly through LFA and Specialist Services.

Within this programme, investment portfolios are risk-graded, diversified and professionally managed on an outsourced basis – by Thames River Capital (formerly F&C), Seven IM, LVAM (which transferred its portfolio to Threadneedle Asset Management during the year), Premier and Principal – and are regularly rebalanced. The process is continuing to develop greater clarity, understanding and satisfaction among clients, as funds are performing in line with their expectations.

The number of advisers adopting the Capital process as core to their business model continues to increase and we anticipate further significant growth during 2012.

RETAIL DISTRIBUTION IMPLEMENTATION PLAN (RDIP)

The RDR rules have defined the qualification requirement for all advisers classed in regulatory terms as Independent or Restricted at QCA Level 4 from 1 January, 2013. To date 88 per cent. of the Group's advisers are qualified or are uplifting their qualifications through defined courses of study which will lead to the new benchmark qualification being achieved prior to the RDR implementation date.

Of the remaining 12 per cent. the majority are indicating that they will not be sitting the examinations and will therefore be retiring from advising clients prior to the deadline. The Group is proactively guiding and supporting all of its advisers through the examination process and assisting the move to new business models following the requirement to separate adviser remuneration from the investment product charges applicable from 1 January 2013.

CHIEF EXECUTIVE'S REVIEW (contined)

The majority of clients served by those advisers who retire are likely to remain advised by the Group, whilst a number of the advisers concerned are likely to have other roles within the Group. The Group will continue to provide structured learning sessions and is fully engaged with the professional bodies with a view to assisting advisers to take and pass the necessary exams.

Customer agreed remuneration aims to remove any potential for product provider influence through current commission structures. Lighthouse has for several years now offered clients seeking to engage with a Lighthouse adviser the option to pay for the advice received by fee or commission at the option of the client. The new rules will largely remove the commission option, albeit it is envisaged the client will still be able to instruct that adviser charges, once agreed, may be deducted from the product both for the initial advice and subsequent annual servicing. Pure protection advice will not be included within these changes.

The Group is seeking to assist all its advisers in the mechanics of re-engineering their client engagement terms to accommodate these changes, and the work necessary to achieve this is expected to be completed in time.

THE FUTURE

The Group continues to deepen and expand its affinity relationships and announced in 2011 further contractual relationships, bringing the subscriber base for which contractual relationships exist and with which the Group can interact to provide advice to circa 5 million UK citizens. From this base the Group seeks to offer its professional services for financial planning and allied matters. In 2011 demand (measured by leads initiated by the Group) increased by 30 per cent. from our affinity relationships and from other Group sources.

The Financial Services Authority ("FSA"), which regulates the Group's principal trading entity LASER, splits its operations in two from 2 April 2012 in advance of the passing of the forthcoming Finance Bill. This latter legislation will bring into law the creation of the successors to the FSA being The Financial Conduct Authority ("FCA") and the Prudential Regulatory Authority ("PRA") the latter being the responsibility of the Bank of England. LASER will be regulated by the FCA.

The RDR brings opportunities and challenges. The major challenge to date has been to establish an adviser base fully qualified to the new standard level and to create an on going business model which will serve the Group and its advisers well, and which is efficient, cost-effective and robust. The Group continues to work towards these goals and the Board believes that the actions taken, and to be taken, will maximise the Group's position in the post-RDR environment.

Malcolm Streatfield
Chief Executive

12 March 2012

REPORT OF THE DIRECTORS

The directors present their annual report and financial statements for the year ended 31 December 2011.

RESULTS AND DIVIDENDS

Earnings before depreciation, amortisation, non-recurring items, interest and tax were £1,601,000 (2010: £1,321,000), with a loss after tax but before non-controlling interests of £2,406,000 (2010: £1,526,000 profit).

Dividends are recognised in the financial statements in the year in which they are paid or, in the case of a final dividend, when approved by the shareholders.

An Interim dividend of £166,000, being 0.13p per share (2010: £153,000 or 0.12p each per share) and a final dividend of £345,000 or 0.27p per share (2010: £306,000 or 0.24p per share) have been declared in respect of the financial year ended 31 December 2011.

The interim dividend was paid in October 2011 and the final dividend will be paid on 8 June 2012 to shareholders on the register as at 11 May 2012.

The total dividends recognised in 2011 were therefore £472,000 (2010: £409,000).

PRINCIPAL ACTIVITY

The principal activities of the Group for the year were the provision of financial advice to customers and regulatory authorisation to independent financial advisers operating from locations across the UK.

The Group's services are delivered to the ultimate retail client through its advisers operating in three principal operating segments:

- National, under the Lighthouse Financial Advice brand. The advisers in this segment are all self-employed;
- Network, under the Lighthouse Advisory Services, LighthouseWealth and Falcon Financial Advice brands. All the advisers in this segment are self-employed. Lighthouse Advisory Services Limited ("LASER") now effectively authorises all of the advisers within this segment with those previously authorised by LighthouseFSAS and Falcon Group having transferred to LASER on or before 31 December 2011; and
- Specialist Services, under the LighthouseCarrwood and Lighthouse Group Employee Benefits brands. All of the advisers in this segment are employed.

Lighthouse Group plc is a public limited company incorporated in England and Wales.

REVIEW OF BUSINESS

The Group's Statement of Comprehensive Income for the year is set out on page 22. Detailed commentary on the Group's trading during the year is included within the Chairman's Statement and Chief Executive's Review set out on pages 3 to 5 and 6 to 9 respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group are broadly grouped as competitive and business, regulatory and financial.

Competitive and business risks

These comprise:

- adverse changes in the general economic environment and, more specifically, in the market for the provision of retail financial services to UK consumers within which the Group operates;
- movements in the UK retail financial products market place away from the "whole of market" solutions offered by the Group towards more restricted advice models;
- movements in the UK retail financial products market place away from an up-front commission basis of remuneration for IFAs to models based on prior agreement of total charges payable by customers (including those levied by providers);

REPORT OF THE DIRECTORS (continued)

- the increasing use of technology which could enable UK consumers to procure retail financial products direct from the manufacturer at “wholesale” prices (commonly called factory gate pricing);
- aggressive price competition from other providers of IFA network or aggregated term services;
- increases in the scale of regulation imposed by UK and European governments; and
- inflationary impacts on the operating cost base of the Group.

In order to mitigate the above risks the Group maintains a close and regular scrutiny of the markets in which it operates and senior management meet regularly to review such issues and determine appropriate responses. Senior management also co-operate with and participate in a variety of industry and regulatory focus groups, trade associations and regulatory forums in order to input into the decision-making process and learn more about current market developments.

The Group is reliant on recruiting and retaining quality financial advisers. Such recruitment is undertaken on a variety of bases, both financial and qualitative, and management strives to balance all aspects to ensure that the offerings from the Group are attractive to new and existing advisers whilst resisting pressure to erode margins.

The Group’s income is directly aligned to the external market conditions. Lower market returns reduce investors’ appetite for investment products and reduce the income derived from funds-based products. Senior management of the Group review market developments and key performance indicators such as adviser production and spread of business by type on a regular basis to identify any such trends as quickly as possible and take appropriate mitigating action.

Regulatory risks

The provision of financial advice (including in respect of mortgages and protection products) is regulated by the Financial Services Authority (FSA). The Group has always sought to instil a compliant culture within its procedures so as to govern the activity of its employees and self-employed advisers, ensuring that behaviour is in line with best practice, and should be capable of being justified with hindsight.

The Group has an obligation to provide financial advice to its customers that is appropriate and in line with current legislation and the customer’s specified risk preference, and to treat customers fairly in an open and transparent manner. Failure to do so could result in complaints being received from customers, as to the quality of advice or service provided, that seek redress for alleged financial loss as a result of such alleged shortcomings in the advice or service previously supplied.

The Group investigates all such complaints in a timely manner in line with its regulatory obligations. It mitigates the risk of complaints arising or being successful by maintaining a rigorous compliance framework including, *inter alia*, pre- and post-sale reviews of business advised upon, undertaken in a pre-determined manner. It holds professional indemnity insurance covering all of the Group’s operations as required by regulation, and utilises contractual and other provisions to mitigate further the financial impact of any such complaints being upheld.

Financial risks

The Group writes a minority of its business on an indemnity basis, where the provider of the product may claw back a portion of the commission paid if the customer cancels the policy within the indemnity period. The Group is entitled under its contractual relationships to recover that proportion of the commission originally paid to advisers.

Credit risks exist where a small number of advisers have a financial obligation to the Group, normally arising from clawback of commission from product providers for subsequent policy cancellations and mid-term adjustments. The Group mitigates this risk by a range of measures including the retention (where appropriate) of a proportion of funds from advisers to cover potential clawbacks. Credit risks in respect of product providers are considered to be minimal, notwithstanding the recent turmoil in UK and global financial markets.

Liquidity and cash flow risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages this risk by ensuring that commissions payable to advisers are not remitted until funds have been received by the Group, and by monthly treasury management where projected cashflow requirements are monitored and reviewed. In addition, the Group maintains sufficient working capital to ensure that its requirements are met on a day-to-day basis.

FUTURE DEVELOPMENTS

Funds continue to be gathered under the LighthouseCapital banner with cumulative monies invested with the dedicated fund managers now at some £250 million by current market value. This has enabled the Group and its advisers to significantly increase their joint influence over client investments. The resulting boost in recurring revenues will increase the value of the adviser's own business, and in parallel will reinforce the financial strength of the Group.

CHARITABLE DONATIONS

During the period, the Group donated £650 to charitable organisations (2010: £6,250) including amounts raised in charitable activities at conferences.

DISABLED EMPLOYEES

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue. It is the policy of the Group that training, career development and promotion opportunities should be made available to all employees.

EMPLOYEES

Details of the number of employees and their related costs are set out in Note 4 to the Financial Statements and, in the case of the Directors of the Company, within this report and the Directors' Remuneration Report set out on pages 16 to 19.

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of its adviser base.

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, advisers, suppliers and business introducers should be treated fairly regardless of:

- race, colour, nationality (including citizenship), ethnic or national origins;
- gender, sexual orientation, marital or family status;
- religious or political beliefs or affiliations;
- disability, impairment or age; or
- membership of a trade union

and that they should not be disadvantaged by unjust or unfair conditions or requirements.

DIRECTORS

The directors of the Company who held office throughout the year, except where otherwise stated, were as follows:

D Hickey	
M Streatfield	
P Smith	
M Ross	
R Last	
A Scott-Barrett	
A Rosengren	Resigned 4 October 2011

In accordance with the Articles of Association and the Companies Act 2006, no directors are required to retire from office at the forthcoming Annual General Meeting. Information in respect of directors' interests is disclosed in the Directors' Remuneration report on pages 16 to 19.

REPORT OF THE DIRECTORS (continued)

SUBSTANTIAL SHAREHOLDINGS

As at 17 February 2012 the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of holder	Number	%
Mr. Allan Rosengren	18,807,234	14.73%
Liverpool Victoria Financial Advice Services Limited	8,353,706	6.54%
Friends Provident Life and Pensions Limited	7,497,466	5.87%
Southern Rock Insurance Company, Mr. Arron Banks and Mr. Paul Chase-Gardener	6,932,745	5.43%
Mr. Julian Telling	6,568,908	5.14%
Mr Arthur Lancaster & Boston Trust Company Ltd	6,470,588	5.07%
Skandia Life Assurance (Holdings) Limited	5,581,383	4.37%
Mr David Hickey*	5,161,772	4.04%
AEGON UK plc	4,487,689	3.51%

*Includes 1,891,350 Lighthouse shares in which David Hickey has a beneficial interest through his Self-Invested Personal Pension Plan as of 17 February 2012.

SUPPLIER PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts and abide by the terms of payment. On average, the Group's trade creditors at 31 December 2011 represented 24 days' purchases (2010: 28 days' purchases). The Company's creditor payment period was nil days (2010: nil days) since the Company has no trading activities.

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise available-for-sale financial instruments, cash, receivables and payables. The most significant treasury exposures faced by the Group are raising finance, managing interest rate positions and investing surplus cash in high quality assets. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage these exposures, which at present exclude the use of any derivatives or hedges. Transactions are only undertaken if they relate to underlying exposures and cannot be viewed as speculative. Regular reports are provided to senior management in respect of treasury operations and are subject to periodic independent reviews by the Board which include a consideration of the use of derivatives and hedges.

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 Chairman's Statement and the Chief Executive's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Consolidated Statement of Comprehensive Income, the Group Statement of Financial Position and the Consolidated Statement of Cash Flows on pages 22, 25 and 26 respectively. In addition Note 19 on risk management includes the Group's and the Company's objectives, policies and processes for managing their capital, their financial risk management objectives, details of their financial instruments and their exposures to credit risk and liquidity.

The Group has considerable financial resources with some £12 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants and has long-established relationships with its clients, advisers and providers. In addition all of its regulated subsidiary entities had a surplus of eligible assets over their minimum capital requirements for regulatory purposes, with the exception of The Falcon Group Limited which had a deficit of some £1.7m at 31 December 2011 but which no longer has any regulated activity. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further information on the basis of preparation of these financial statements can be seen in Note 1 to both the consolidated financial statements under International Financial Reporting Standards as adopted by the EU and the parent company's financial statements.

ENVIRONMENT

The Group takes its social and environmental responsibilities seriously. Where possible the Group's offices use high efficiency, low energy equipment, lighting and heating. The Group's operations generate significant amounts of paper waste which is destroyed and recycled securely.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware of and
- the director has taken all the reasonable steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

In accordance with the requirements of section 236 of the Companies Act 2006, qualifying third party indemnity provisions are in force for the benefit of the directors of the Company and its associated companies.

CORPORATE GOVERNANCE

The directors intend, so far as possible and to the extent appropriate given the Company's size and the constitution of the Board, to comply with the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel and which is appended to the Listing Rules of the Financial Services Authority. The Board has separate roles for Chairman and Chief Executive.

The Board has established an Audit Committee, which comprises Richard Last (Chairman) and Alex Scott-Barrett, a Remuneration Committee, which comprises Alex Scott-Barrett (Chairman) and Richard Last, with formally delegated responsibilities, and a Regulatory and Risk Committee which comprises Alex Scott-Barrett (Chairman), Richard Last, and senior members of the compliance team.

The Audit Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Company is properly monitored and reported. It is also responsible for appointing the auditor, ensuring the auditor's independence is not compromised and reviewing the reports on the Company from the auditor in relation to the accounts and internal control systems.

REPORT OF THE DIRECTORS (continued)

The Remuneration Committee meets at least twice a year and is responsible for reviewing the performance of the executive directors, and for determining the scale and structure of their remuneration packages and the basis of their service contracts bearing in mind the interests of shareholders. The Committee also monitors performance and approves the payment of performance-related bonuses.

The Regulatory and Risk Committee meets three times a year to monitor the Group's compliance with regulatory and other risk-related matters.

The Board has not established a Nomination Committee as it regards the approval and appointment of directors (whether executive or non-executive) as a matter for consideration by the whole Board.

INTERNAL CONTROL

The Combined Code introduced a requirement that the directors' review should be extended to cover not just internal financial controls but all controls including operations, compliance and risk management. It reports as follows:

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key procedures that have been established and which are designed to provide effective internal control are as follows:

- **Management structure:**
  The Board of directors meets regularly and minutes of its meetings are maintained.

- **Financial reporting:**
  Budgets are prepared and reviewed by executive management. Any material variances from budgeted to actual results are investigated.

- **Investment appraisal:**
  The Group has a clearly defined framework for capital expenditure requiring approval by key personnel and the Board where appropriate.

The Board has reviewed the effectiveness of the system of internal controls and it has considered the major business risks and the control environment. No significant control deficiencies were reported during the period.

No weaknesses in internal control have resulted in any material losses, contingencies or uncertainty, which would require disclosure, as recommended by the guidance for directors on reporting on internal control.

The Group also retains the services of an external firm of Chartered Accountants as internal auditor which reports directly to the Audit Committee.

AUDITORS

A resolution to re-appoint KPMG Audit Plc as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

By order of the board

M Ross
Company Secretary

12 March 2012

DIRECTORS' REMUNERATION REPORT

Composition of the Remuneration Committee
The members of the Committee who served during the year were:

A Scott-Barrett (Chairman)
R Last

THE DIRECTORS' REMUNERATION REPORT REGULATIONS 2002

The Group is not required to comply with S.I. 2002/1986 (The Directors' Remuneration Report Regulations 2002), and accordingly the content of this report does not include all the information required by those regulations.

REMUNERATION POLICY

The policy is to provide remuneration packages for executive directors which aim to attract and retain high quality executives and which link their reward to the Group's performance.

REMUNERATION PACKAGE

There are four components to the remuneration package: base salary and benefits; bonus; pension contribution; and long-term incentive arrangements.

- The base salaries of the executive directors are set at levels considered to be appropriate when they enter into service agreements with the Group. The base salaries are reviewed by the Remuneration Committee annually and any increases are awarded having regard to performance and salary levels in comparable organisations.
- The targets for bonus payments are set by the Remuneration Committee to balance the short- and longer-term objectives. Superior performance is encouraged by providing challenging performance goals with reference to the Group's annual budgets and strategic objectives.
- The Group incorporates an allowance for contributions to money purchase pension schemes within the overall remuneration package. Each director has the option to convert this to payment of salary in lieu of this. Death in service and critical illness cover is also provided for some directors.
- The Company has established approved and unapproved share option schemes, in which the executive directors may participate.

CONTRACTS OF SERVICE AND TERMS OF ENGAGEMENT

The executive directors' service agreements provide for annual reviews of salary and for termination on twelve months' notice by either party. The non-executive directors have letters of engagement relating to their appointments. The agreements may be terminated by either party on three months' notice.

DIRECTORS' FEES

The executive directors are responsible for setting the fees of the non-executive directors.

DIRECTORS' REMUNERATION REPORT (continued)

DIRECTORS' EMOLUMENTS

The remuneration of the executive directors during the year was as follows:

2011	D Hickey £'000	A Rosengren (to 4 October 2011) £'000	M Streatfield £'000	P Smith £'000	M Ross £'000
Salary & fees	**202**	**139**	**202**	**158**	**100**
Benefits	**3**	**5**	**5**	**8**	**4**
Bonus	**65**	**–**	**65**	**33**	**33**
Compensation for loss of office	**–**	**232**	**–**	**–**	**–**
Total excluding pensions	**270**	**376**	**272**	**199**	**137**
Pension	**–**	**13**	**–**	**–**	**–**
Total emoluments 2011	**270**	**389**	**272**	**199**	**137**

2010	D Hickey £'000	A Rosengren £'000	M Streatfield £'000	P Smith £'000	M Ross £'000
Salary & fees	197	184	202	158	100
Benefits	–	2	2	–	2
Bonus	15	15	15	15	10
Total excluding pensions	212	201	219	173	112
Pension	–	18	–	–	–
Total emoluments 2010	212	219	219	173	112

The benefits relate to health insurance and critical illness cover for certain directors and their immediate families.

The remuneration of the non-executive directors during the year was as follows:

2011	R Last £'000	A Scott-Barrett £'000
Salary & fees being total emoluments 2011	**26**	**26**

2010	R Last £'000	A Scott-Barrett £'000
Salary & fees being total emoluments 2010	26	26

INTERESTS IN OPTIONS

The following directors have been granted options under the unapproved Company share option scheme.

	Date granted	No. of ordinary shares	Exercise price	Earliest date exercisable	Latest date exercisable
M Streatfield	23 January 2003	138,462	32.5p	23 January 2006	22 January 2013
	23 October 2007	1,732,181	24.0p	23 October 2010	22 October 2017
	21 May 2008	1,017,819	21.5p	21 May 2011	20 May 2018
		2,888,462			
D Hickey	23 October 2007	1,690,515	24.0p	23 October 2010	22 October 2017
	21 May 2008	1,017,819	21.5p	21 May 2011	20 May 2018
		2,708,334			
P Smith	21 May 2008	360,465	21.5p	21 May 2011	20 May 2018
M Ross	21 May 2008	110,465	21.5p	21 May 2011	20 May 2018

The following directors have been granted options under the approved Company share option scheme.

	Date granted	No. of ordinary shares	Exercise price	Earliest date exercisable	Latest date exercisable
M Streatfield	23 January 2003	92,307	32.5p	23 January 2008	22 January 2013
D Hickey	23 January 2003	61,538	32.5p	23 January 2008	22 January 2013
	23 October 2007	41,667	24.0p	23 October 2010	22 October 2017
		103,205			
P Smith	21 May 2008	139,535	21.5p	21 May 2011	20 May 2018
M Ross	21 May 2008	139,535	21.5p	21 May 2011	20 May 2018

The market price of the Company's shares on 31 December 2011 was 4.85 pence per share and the highest and lowest share prices during the year were 10.2 pence and 4.00 pence respectively. No options have been exercised by the directors during the year.

DIRECTORS' REMUNERATION REPORT (continued)

DIRECTORS' INTERESTS

The directors who held office at 31 December 2011 had the following beneficial interest in the ordinary share capital of the Company at 31 December 2011 according to the register of directors' interests:

Director	At 31 December 2011 No. of ordinary shares of 1p each	At 31 December 2010 No. of ordinary shares of 1p each
D Hickey	5,161,772	5,161,772
R Last	812,500	812,500
P Smith	217,500	217,500
A Scott-Barrett	280,000	280,000
M Streatfield	2,612,063	2,612,063

M Ross had no beneficial interest in the ordinary share capital of the Company at 31 December 2011 or at 31 December 2010.

As part of the holdings shown above, Messrs. D Hickey and M Streatfield had beneficial interests in 1,891,350 and 1,168,615 ordinary shares respectively held in their Self-Invested Personal Pension Plans.

A Scott-Barrett
Chairman, Remuneration Committee

12 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE 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 group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIGHTHOUSE GROUP PLC

We have audited the financial statements of Lighthouse Group plc for the year ended 31 December 2011 set out on pages 22 to 62. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Murray Alexander Raisbeck
(Senior Statutory Auditor)

for and on behalf of

KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol

12 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £'000	2010 £'000
Revenue	**3**	**60,383**	63,125
Cost of sales		**(44,820)**	(47,368)
Gross profit		**15,563**	15,757
Administrative expenses			
Other operating expenses		**(13,962)**	(14,436)
Earnings before interest, tax, depreciation, amortisation and non-recurring items		**1,601**	1,321
Non-recurring operating expenses	**5**	**(3,365)**	(164)
Total operating expenses		**(17,327)**	(14,600)
Depreciation and amortisation	**5**	**(895)**	(973)
Total administrative expenses		**(18,222)**	(15,573)
Operating (loss)/profit	**5**	**(2,659)**	184
Finance revenue	**6**	**86**	64
Finance costs	**6**	**(84)**	(119)
(Loss)/profit before taxation		**(2,657)**	129
Tax credit	**7**	**251**	161
Gain on disposal of subsidiary undertakings	**14**	**–**	1,236
(Loss)/profit for the year		**(2,406)**	1,526
Other comprehensive income:			
Diminution in fair value of available-for-sale financial asset	**13**	**(7)**	15
Total comprehensive (loss)/income for the year		**(2,413)**	1,541
(Loss)/profit for the year attributable to:			
Equity holders of the parent		**(2,444)**	1,452
Non-controlling interest		**38**	74
		(2,406)	1,526
Total comprehensive (loss)/ income attributable to:			
Equity holders of the parent		**(2,451)**	1,467
Non-controlling interest		**38**	74
		(2,413)	1,541
Basic (loss)/earnings per share	**8**	**(1.92p)**	1.14p
Diluted (loss)/earnings per share	**8**	**(1.92p)**	1.13p

All activities are classed as continuing.

The notes on pages 28 to 62 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Special non-distributable reserve arising from reduction in share premium £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total attributable to equity shareholders £'000	Non-controlling interest £'000	Total £'000
At 1 January 2011	**1,277**	**–**	**–**	**1,999**	**919**	**9,659**	**13,854**	**106**	**13,960**
(Loss)/profit for the year	**–**	**–**	**–**	**–**	**–**	**(2,444)**	**(2,444)**	**38**	**(2,406)**
Decrease in fair value of available-for-sale financial asset (Note 13)	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**–**	**(2,451)**	**(2,451)**	**38**	**(2,413)**
Share-based payment	**–**	**–**	**–**	**–**	**32**	**–**	**32**	**–**	**32**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(472)**	**(472)**	**(95)**	**(567)**
At 31 December 2011	**1,277**	**–**	**–**	**1,999**	**951**	**6,736**	**10,963**	**49**	**11,012**
At 1 January 2010	1,277	–	–	1,999	874	8,601	12,751	90	12,841
Profit for the year	–	–	–	–	–	1,452	1,452	74	1,526
Increase in fair value of available-for-sale financial asset (Note 13)	–	–	–	–	–	15	15	–	15
Total comprehensive income for the year	–	–	–	–	–	1,467	1,467	74	1,541
Share-based payment	–	–	–	–	45	–	45	–	45
Dividends paid	–	–	–	–	–	(409)	(409)	(58)	(467)
At 31 December 2010	1,277	–	–	1,999	919	9,659	13,854	106	13,960

The notes on pages 28 to 62 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Special non-distributable reserve arising from reduction in share premium £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total £'000
At 1 January 2011	**1,277**	**–**	**–**	**90**	**563**	**10,196**	**12,126**
Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (Note 13)	**–**	**–**	**–**	**–**	**32**	**–**	**32**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(1,862)**	**(1,862)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(472)**	**(472)**
At 31 December 2011	**1,277**	**–**	**–**	**90**	**595**	**7,862**	**9,824**
At 1 January 2010	1,277	–	–	90	518	9,935	11,820
Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (Note 13)	–	–	–	–	45	–	45
Total comprehensive income for the year	–	–	–	–	–	670	670
Dividends paid	–	–	–	–	–	(409)	(409)
At 31 December 2010	1,277	–	–	90	563	10,196	12,126

The notes on pages 28 to 62 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Assets					
Non-current assets					
Intangible assets	11	10,460	11,228	–	–
Property, plant and equipment	12	146	202	–	–
Available-for-sale investments	13	128	135	–	–
Investments in subsidiaries	13	–	–	8,934	7,716
		10,734	11,565	8,934	7,716
Current assets					
Trade and other receivables	15	7,316	7,724	2,108	4,410
Cash and cash equivalents	16	11,895	13,924	–	–
		19,211	21,648	2,108	4,410
Total assets		29,945	33,213	11,042	12,126
Liabilities					
Current liabilities					
Trade and other payables	17	9,671	10,198	1,218	–
Provisions	18	5,825	4,246	–	–
		15,496	14,444	1,218	–
Non-current liabilities					
Trade and other payables	17	–	912	–	–
Deferred tax liabilities	7	1,097	1,366	–	–
Provisions	18	2,340	2,531	–	–
		3,437	4,809	–	–
Total liabilities		18,933	19,253	1,218	–
Net assets		11,012	13,960	9,824	12,126
Capital and reserves					
Called-up share capital	20	1,277	1,277	1,277	1,277
Special non-distributable reserve	22	1,999	1,999	90	90
Other reserves – share-based payments		951	919	595	563
Retained earnings		6,736	9,659	7,862	10,196
Total equity attributable to equity holders of the Company		10,963	13,854	9,824	12,126
Non-controlling interest		49	106	–	–
Total equity		11,012	13,960	9,824	12,126

The financial statements on pages 22 to 62 were approved by the Board on 12 March 2012 and signed on its behalf by:

D Hickey, Director
P Smith, Director

The notes on pages 28 to 62 form an integral part of these financial statements.
Company registered number 04042743

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £'000	2010 £'000
Operating activities			
(Loss)/profit before tax for the year		**(2,657)**	129
Adjustments to reconcile (loss)/profit for the year to net cash inflows from operating activities			
Finance revenues		**(86)**	(64)
Finance costs		**84**	119
Loss on disposal of property, plant and equipment		**2**	2
Depreciation of property, plant and equipment		**127**	200
Amortisation of intangible assets		**768**	773
Share-based payments		**32**	45
Change in trade and other receivables		**407**	270
Change in trade and other payables		**532**	(128)
Change in provisions		**1,388**	269
Cash generated from operations		**597**	1,615
Finance costs paid		**(84)**	(121)
Income taxes (paid)/received		**(44)**	102
Net cash inflow from operating activities		**469**	1,596
Investing activities			
Payments to acquire trade and certain assets under business combination		**(144)**	(144)
Proceeds from disposal of subsidiary undertakings net of cash disposed of	**14**	**–**	1,452
Purchase of property, plant and equipment		**(73)**	(130)
Finance revenues received		**86**	64
Net cash (outflow)/inflow from investing activities		**(131)**	1,242
Financing activities			
Repayments of trade facility		**(1,800)**	(1,800)
Dividends paid to equity shareholders		**(472)**	(409)
Dividends paid to non-controlling interest		**(95)**	(58)
Net cash outflow from financing activities		**(2,367)**	(2,267)
(Decrease)/increase in cash and cash equivalents		**(2,029)**	571
Cash and cash equivalents at the beginning of the year		**13,924**	13,353
Cash and cash equivalents at the end of the year	**16**	**11,895**	13,924

The notes on pages 28 to 62 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £'000	2010 £'000
Operating activities			
(Loss)/profit before tax for the year		**(1,862)**	670
Adjustments to reconcile profit for the year to net cash (outflow)/inflow from operating activities			
Change in other receivables		**2,302**	(306)
Profit on disposal of subsidiary undertakings	**14**	**–**	(1,584)
Impairment of investments	**13**	**32**	45
Net cash inflow/(outflow) from operating activities		**472**	(1,175)
Investing activities			
Proceeds from disposal of subsidiary undertakings		**–**	1,584
Net cash inflow from investing activities		**–**	1,584
Financing activities			
Dividends paid to equity shareholders		**(472)**	(409)
Net cash outflow from financing activities		**(472)**	(409)
Increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

The notes on pages 28 to 62 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The Group and Company financial statements of Lighthouse Group plc for the year ended 31 December 2011 were authorised for issue by the Board of directors on 12 March 2012 and the balance sheets were signed on the Board's behalf by David Hickey and Peter Smith. Lighthouse Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Alternative Investment Market.

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Group and by the Company are set out in Note 2.

The Company has taken advantage of the exemption provided under Section 408(2) of the Companies Act 2006 not to publish its individual Statement of Comprehensive Income and related notes.

2. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow set out the material policies which have been applied in preparing the financial statements of the Group and Company for the year ended 31 December 2011. The Group and Company financial statements are presented in sterling, which is the Group's functional currency, and are rounded to the nearest £'000.

Standards and interpretations effective in 2011

The following changes in financial reporting and accounting standards have come into effect in 2011:

- **IFRS 3 Business Combinations – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS**
  IFRS 3 is amended to state that contingent consideration arising in a business combination that had been accounted for in accordance with IFRS 3 (2004) that has not been settled or otherwise resolved at the effective date of IFRS 3 (2008), continues to be accounted for in accordance with IFRS 3 (2004).

- **IFRS 3 Business Combinations – Measurement of non-controlling interests**
  IFRS 3 is amended to limit the accounting policy choice to measure Non-Controlling Interests ("NCI") upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation.

- **IFRS 7 Financial Instruments: Disclosures – Amendments to disclosures**
  IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

- **IAS 1 Presentation of Financial Statements – Presentation of statement of changes in equity**
  IAS 1 is amended to clarify that a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity.

None of the above changes had any material impact on the Group's accounting policies or presentation of its financial information.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Critical estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is as set out below or is included in the following notes:

- going concern – see below
- identification of principal reportable operating segments – see below and Note 3
- utilisation of tax losses – Note 7
- measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets – Note 11
- accounting for business combinations and disposals – Note 14
- measurement of potential clawbacks and complaints by customers, and the amounts thereof recoverable from advisers – see below and Notes 15 and 18
- measurement of other provisions – see below and Note 18.

Provision for clawback of indemnity commissions

In the event of a clawback of indemnity commission in respect of policies cancelled during the indemnity period the Group has an obligation to settle the liability. The provision is calculated by reference to historical data resulting from past claims, referenced to present day sales of indemnity products. An amount relating to the recoverable adviser element of the provision is included within debtors.

Complaints provision

The Group has an obligation to settle upheld complaints. Any complaint is recorded and assessed as to its validity and financial quantum. Cases where there is a 50% or greater likelihood of redress are provided for in full. Save for the excess, which can be recoverable from the adviser, the amount payable in redress is generally recoverable through the Group's Professional Indemnity Insurance arrangements. The Group's exposure is therefore usually limited to recovering the excess from the adviser. Recoverability is assessed on a case by case basis and provision made where necessary.

Other provisions

During 2011 certain of the Group's regulated entities were rationalised. As a result effectively all of the advisers previously authorised through the Falcon and FSAS regulated entities transferred to LASER and Falcon no longer undertakes any regulatory activities. Subsequent to this rationalisation, certain aspects of those entities' historical trading have become subject of review. As a consequence, the Board has made a provision in respect of closure costs and other potential historic liabilities.

Goodwill and intangible assets

Following initial recognition, goodwill and intangible assets are included at cost less any accumulated impairment losses and, in the case of intangible assets, amortisation charged.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Intangible assets are reviewed for impairment only when the associated impairment indicators have in the opinion of the Board been triggered during the period under review. Any impairment is allocated first against goodwill and thereafter against intangibles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

For the purposes of impairment testing, goodwill and intangible assets are allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Lighthouse Group plc and its subsidiaries as at 31 December each year or for the financial year ended on that date.

Subsidiaries are consolidated from the date of acquisition when the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement.

All intra-group balances and transactions, income and expenses and profit and losses from intra-group transactions, are eliminated in full.

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 Reviews contained within the Chairman's Statement, Chief Executive's Review and the Report of the Directors within the Annual Report. The financial position of the Group, its cash flows and its liquidity position are described in the Financial Commentary section of the Chief Executive's Review. In addition Note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources with some £12 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants and has long-established relationship with its clients, advisers and providers. In addition all of its regulated subsidiary entities had a surplus of eligible assets over their minimum capital requirements for regulatory purposes with the exception of Falcon (see Note 13) which has effectively ceased its regulated activities. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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 financial statements.

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, is stated net of value added tax and is earned within the United Kingdom as commissions, fees and administration charges.

Commission income comprises commissions receivable on inception of a new policy or investment product ('initial commissions') and commission receivable on renewal ('renewal commissions').

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Initial commissions are recognised when the policy goes on risk after taking account of provisions for the potential cancellation of policies where commission is received under indemnity terms. Renewal commissions are recognised when received.

Fees for financial advice, administration charges and other services are recognised as the services are provided.

Interest income represents bank interest receivable on the Group's cash balances and is recognised as it is earned over the term of the deposit.

Segmental reporting

Operating segments are reported separately if their reported revenue (including inter-segment transfers) is equal to or exceeds 10% of the combined revenue (internal and external) of all operating segments, if their reported profit or loss is equal to or exceeds 10% of the combined reported profit of all operating segments that did not report a loss or the combined reported loss of all operating segments that reported a loss or their assets are equal to or exceed 10% of the combined assets of all reporting segments. All of these criteria are before eliminating intra-segment transactions and balances and are as reported to the Chief Operating Decision Maker ("CODM").

The Board of Lighthouse Group plc considers itself to be the CODM for the Group as it is the highest level of management at which performance is evaluated and resources allocated on the basis of internal reports supplied.

Operating segments are aggregated where such treatment would be in line with the requirements set out above, the segments have similar economic characteristics (including but not limited to long-term gross margins and other key performance indicators) and the type or class of customer, distribution and the regulatory environment are likewise similar.

As required by IFRS 8, at least 75% of consolidated external revenues reported by operating segments are identified as reportable segments, even if the sum of the revenues generated by segments otherwise identified as being reportable is less than this amount. Subject to the above, segments that fall below or outside the recognition criteria set out above are aggregated and reported as "other segments".

The results of business activities which do not meet the definition of an operating segment e.g. head office and other corporate activities which cannot be allocated to individual reporting segments and which do not generate revenues, whether external or internal, are not reported as such, rather the financial information in respect of such activities is reported in the reconciliation between the IFRS 8 segment information and that set out in the primary financial statements.

Interest revenue and expense, depreciation and amortisation and income tax revenue or expense are not allocated to reportable segments as they are not reported as such to the CODM and they are not inherent in the measures of segment profit or loss used by the CODM. The measurement of segment profit that is reviewed by the CODM is earnings before interest, tax, depreciation, amortisation and non-recurring items (EBITDA).

Non-controlling interests

Where non-controlling interests exist in a subsidiary undertaking the net assets of that entity are included at fair value on acquisition and non-controlling interests are credited with the appropriate portion of their net assets along with its subsequent share of retained earnings (less distributions) of that entity.

Business combinations and goodwill

Goodwill recognised under UK GAAP prior to the date of transition to IFRS (1 January 2006) is stated at net book value as at the transition date. Business combinations between 1 January 2006 and 1 July 2009 were accounted for under IFRS 3 using the purchase method. Any excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Consolidated Balance Sheet as goodwill. Goodwill at the transition date and any that arises on acquisitions 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 Consolidated Statement of Comprehensive Income.

Business combinations arising after 1 July 2009 are accounted for under IFRS 3 Business Combinations (2008) using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recorded immediately in the Statement of Comprehensive Income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the Statement of Comprehensive Income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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 an operation within it.

Investment in group undertakings

In the Company's Statement of Financial Position, investments in group undertakings are stated at cost less accumulated impairment losses.

Intangible assets

Intangible assets acquired separately are recognised and initially measured at cost and those identified in a business combination are recognised at fair value as at the date of acquisition. An intangible asset acquired as part of a business combination is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Intangibles with a finite life have no residual value and are amortised on a straight line basis over their expected useful economic lives as follows:

• Commissions processing software and development	5 years
• Acquired customer relationships	9-13 years
• Acquired Appointed Representative contracts	10-13 years

Intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost less any accumulated depreciation and any impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Depreciation is calculated to write off the cost of the asset over its estimated useful economic life to its residual value based on prices prevailing at the balance sheet date, on a straight-line basis as follows:

• Leasehold improvements	Lower of life of lease or 10 years
• Office equipment	5-10 years
• Computer equipment	3 years
• Motor vehicles	4 years

All property, plant and equipment is reviewed for impairment when there are indications that the carrying value may not be recoverable. If there is evidence of impairment then the asset is written down to its recoverable amount. Any depreciation or impairment is charged in the Statement of Comprehensive Income as an expense. Useful economic lives and residual values are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Statement of Comprehensive Income in the period of derecognition.

Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or when annual impairment testing for an asset is required, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 or cash generating unit (CGU), unless the asset or CGU does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Impairment losses on continuing operations are recognised in the Consolidated Statement of Comprehensive Income in the expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. 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 or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Accounting for finance income and expenses is discussed on page 35 of the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Available-for-sale financial assets

The Group's investment in a certain debt security is classified as an available-for-sale financial asset. Subsequent to initial recognition, such assets are recognised at fair value and changes therein, other than impairment losses, are recognised in the Consolidated Statement of Comprehensive Income.

Other non-derivative financial instruments

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) 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, expected future cashflows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

The provision for clawback of indemnity commission represents the expected value of commissions potentially reclaimable by product providers in respect of policies cancelled during the indemnity period based on past experience of such claims. An amount relating to the element of clawbacks recoverable from advisers is included within debtors.

Pension schemes

The Group maintains a number of defined contribution schemes and contributions are charged to the Statement of Comprehensive Income in the year to which they relate.

Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and gains on disposal of available-for-sale financial assets. Interest income is recognised as it accrues in the Statement of Comprehensive Income, using the effective interest method.

Finance expenses comprise interest expense on borrowings and other financial liabilities (such as trade finance facilities) and impairment losses recognised on financial assets. All borrowing costs and related finance expenses are recognised in the Statement of Comprehensive Income using the effective interest method.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except where it relates to an item recognised directly in equity, in which case the related tax is also recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. For the purposes of this policy an intangible asset arising as a result of a business combination is treated as a temporary difference and deferred tax provided accordingly.

Deferred tax is not recognised for the following temporary differences:

- where the deferred tax liability arises from the initial recognition of goodwill;
- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except 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.

Deferred income tax assets (including unutilised tax losses carried forward) are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Non-recurring items

The Group presents as non-recurring items within the relevant income or expenditure category on the face of the Statement of Comprehensive Income, 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 better assess trends in financial performance.

Development costs

Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Share-based payments

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in equity.

In accordance with IFRS 2, where the terms of equity settled awards are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both measured on the date of modification. No reduction is recognised if this difference is negative.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the Statement of Comprehensive Income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Statement of Comprehensive Income.

Any failures to satisfy conditions other than vesting conditions (which are restricted to service and performance conditions only) are classed as cancellations and treated in accordance with the treatment set out above.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards so as to apply IFRS 2 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

Share option awards of the Company's equity instruments in respect of settling grants to employees of a subsidiary company of the parent are disclosed as a charge to the profit and loss account and a credit to equity within the relevant subsidiary company, which better describes the underlying nature of the transaction.

Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the Statement of Comprehensive Income on a straight line basis over the lease term.

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

Standards, amendments and interpretations to existing standards that are not yet effective or have not been early adopted by the Group

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

The standards and interpretations shown below are awaiting endorsement and cannot be early adopted by the Group:

International Accounting Standards (IAS/IFRS)		**Effective date**
IAS 12	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 9	Financial Instruments	1 January 2013

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

International Accounting Standards (IAS / IFRS)		**Effective date**
IFRS 7	Financial Instruments: Disclosures	1 July 2011

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 in the period of initial application.

3. REVENUE AND SEGMENT REPORTING

The revenue and loss (2010: profit) 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 Group has identified three business components as comprising reportable operating segments, being its National, Network and Specialist Services operations. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Segment information is as follows:

Year ended 31 December 2011	National £'000	Network £'000	Specialist Services £'000	Other segments £'000	Total £'000
Total revenues	**16,304**	**59,435**	**4,117**	**–**	**79,856**
Less inter-segment revenues	**–**	**(19,473)**	**–**	**–**	**(19,473)**
External revenues	**16,304**	**39,962**	**4,117**	**–**	**60,383**
Cost of sales and other operating expenses	**(13,704)**	**(38,859)**	**(3,753)**	**(2,466)**	**(58,782)**
Earnings before interest, tax, depreciation and amortisation	**2,600**	**1,103**	**364**	**(2,466)**	**1,601**
Non-recurring operating expenses					**(3,365)**
Depreciation and amortisation					**(895)**
Operating loss					**(2,659)**
Finance revenues					**86**
Finance costs					**(84)**
Loss for the year					**(2,657)**

Year ended 31 December 2010	National £'000	Network £'000	Specialist Services £'000	Other segments £'000	Total £'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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Segment assets and liabilities are as follows:

	2011 £'000	2010 £'000
Segment assets		
National	**3,171**	3,325
Network	**28,926**	29,973
Specialist Services	**3,625**	3,630
Other segments and unallocated	**11,877**	15,383
Total assets including inter-segment	**47,599**	52,311
Inter-segment assets	**(17,654)**	(19,098)
Total assets per financial statements	**29,945**	33,213
Segment liabilities		
National	**3,308**	5,095
Network	**19,548**	17,475
Specialist Services	**1,768**	1,835
Other segments and unallocated	**11,963**	13,946
Total liabilities including inter-segment	**36,587**	38,351
Inter-segment liabilities	**(17,654)**	(19,098)
Total liabilities per financial statements	**18,933**	19,253

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

The staff costs for the year, including executive directors' remuneration, were as follows:

	2011 £'000	2010 £'000
Wages and salaries – advisers	**1,388**	1,390
Wages and salaries – other staff	**5,096**	5,912
Share-based payment	**32**	45
Social security costs	**745**	787
Other pension costs	**149**	177
	7,410	8,311

The average monthly number of employees during the year was as follows:

	Number	Number
Executive directors	**5**	5
Financial advisers	**23**	32
Administration staff	**145**	170
	173	207

Directors

	2011 £'000	2010 £'000
Base remuneration (including bonus)	**1,074**	969
Company contributions to money purchase pension schemes	**13**	18
Compensation for loss of office	**232**	–
	1,319	987

Highest paid director

	2011 £'000	2010 £'000
Base remuneration (including bonus)	**272**	219
Company contributions to money purchase pension schemes	**–**	–
	272	219

5. GROUP OPERATING (LOSS)/PROFIT

The operating (loss)/profit of the Group is stated after charging:

	2011 £'000	2010 £'000
Depreciation of property, plant and equipment – owned	**127**	200
Amortisation of intangible assets	**768**	773
Leasehold property – lease payments	**464**	582
Hire of equipment under operating leases	**44**	57
Non-recurring operating expenses (see below)	**3,365**	164

Auditor's remuneration

During the year the Group obtained the following services from the Group's auditor as detailed below:

	2011 £'000	2010 £'000
Audit of the financial statements	**57**	43
Other fees to auditor:		
Local statutory audits for subsidiaries	**63**	63
Other fees to auditor – taxation services	**19**	19
Other fees to auditor – regulatory services	**6**	6
Other services	**8**	10
	153	141

Non-recurring operating expenses

	2011 £'000	2010 £'000
Closure costs and other potential liabilities incurred in respect of historic trading of subsidiary company which has now ceased operations	**2,738**	–
Re-organisation costs on restructuring of business segments	**627**	164
	3,365	164

The restructuring costs in 2010 comprised redundancy and other costs arising from the merging of previously separable sub-units within the National segment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

6. FINANCE REVENUE AND EXPENSE

	2011 £'000	2010 £'000
Revenue – bank interest earned on the Group's bank deposits	**86**	64
Expense – finance expense on short-term funding	**(51)**	(59)
Expense – interest on trade finance facility	**(33)**	(60)
Total expense	**(84)**	(119)

7. TAXATION

(a) Analysis of charge/(credit) in year

	2011 £'000	2010 £'000
Current tax:		
UK corporation tax charge at 26.5% (2010: 28%)	**29**	58
Deferred tax credit	**(131)**	(137)
	(102)	(79)
Prior year corporation tax credit	**(11)**	–
Prior year deferred tax credit	**(138)**	(82)
Tax credit on loss on ordinary activities	**(251)**	(161)

(b) Reconciliation of the total tax credit

The tax assessed for the year is different to the standard rate of corporation tax in the UK.
The difference is explained below:

	2011 £'000	2010 £'000
(Loss)/profit on ordinary activities before tax	**(2,657)**	129
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	**(704)**	36
Effects of:		
Share-based payment charge not deductible for tax purposes	**8**	12
Expenses not deductible for tax purposes	**18**	20
Depreciation in excess of capital allowances for the year	**(10)**	30
Other timing and permanent differences	**(69)**	(30)
Brought forward tax losses utilised	**(147)**	(305)
Current year losses not relieved	**803**	158
Prior year credits	**(150)**	(82)
Tax credit for year	**(251)**	(161)

No tax arose on the gain on disposal of subsidiary undertakings or on the other comprehensive income during the year (2010: £Nil).

(c) Deferred tax – Group

The deferred tax balances can be analysed as follows:

	2011		2010	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
On fair value of intangible assets arising on business combination	1,097	–	1,366	–
Difference between accumulated depreciation and capital allowances	–	(61)	–	(90)
Other timing differences	–	(75)	–	–
Trading losses	–	(2,344)	–	(2,089)
Deferred tax liability/(asset)	1,097	(2,480)	1,366	(2,179)

The movement in the provision for deferred tax during the year was as follows:

	2011 £'000	2010 £'000
Provision at 1 January	1,366	1,585
Credit to Statement of Comprehensive Income during the year	(269)	(219)
Provision at 31 December	1,097	1,366

The Board is of the opinion that, given the available losses and the uncertainty as to the timescale over which they may be utilised, it would be inappropriate currently to recognise any deferred tax assets in respect of the losses at this stage. However the Board is keeping this position under review.

There is no deferred tax arising on the available-for-sale investment (see Note 13).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

8. (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of (loss)/earnings per share is based on the (loss)/earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year of 127,700,298 (2010: 127,700,298).

There is no dilutive effect on the basic loss per share because of the loss for the year.

Reconciliations of the (loss)/earnings and (loss)/earnings per share used in the calculations are set out below:

	2011		2010	
	Earnings £'000	**Per share amount Pence**	Earnings £'000	Per share amount Pence
Basic (loss)/earnings per share				
The basic (loss)/earnings per share can be analysed as follows:				
On EBITDA*	**1,601**	**1.25p**	1,321	1.03p
Effects of:				
Non-recurring expense	**(3,365)**	**(2.64p)**	(164)	(0.13p)
Depreciation and amortisation	**(895)**	**(0.70p)**	(973)	(0.76p)
Net finance revenue/(cost)	**2**	**–**	(55)	(0.04p)
Tax credit	**251**	**0.20p**	161	0.13p
Disposal of subsidiary undertakings	**–**	**–**	1,236	0.97p
Non-controlling interest	**(38)**	**(0.03p)**	(74)	(0.06p)
(Loss)/profit attributable to ordinary shareholders	**(2,444)**	**(1.92p)**	1,452	1.14p
Dilutive effect				
Options	–	–	–	(0.01p)
Diluted (loss)/earnings per share	**(2,444)**	**(1.92p)**	1,452	1.13p

There are 8,092,189 options (2010: 8,223,710) which could potentially dilute earnings per share in the future, but which were not included within the calculation of diluted loss per share as they were anti-dilutive for the periods presented.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

9. DIVIDENDS PAID AND PROPOSED

Paid:

	2011 **£'000**	2010 £'000
2011 Interim dividend at 0.13 pence (2010: 0.12 pence) per share	**166**	153
2010 Second interim dividend nil pence (2010: 0.2 pence) per share	**–**	256
2010 Final dividend at 0.24 pence (2010: nil pence) per share	**306**	–
	472	409

The directors recommend a final dividend of 0.27p per share, totalling £345,000 (2010: 0.24p per share, totalling £306,000) which, subject to approval at the Annual General Meeting, will be paid on 8 June 2012 to shareholders on the register at the close of business on 11 May 2012. With the interim dividend of 0.13p per share paid during the year, this makes a total dividend for 2011 of 0.40p per share (2010: 0.36p per share).

10. (LOSS)/PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption allowed under Section 408(2) of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The Company's loss for the year was £1,862,000 comprising provisions against the carrying value of investments in subsidiaries and amounts due from subsidiary undertakings, neither of which was dealt with in the Group result.

In 2010, the Company's profit for the year was £670,000 comprising profit on the disposal of subsidiary undertakings less provisions against the carrying value of investments in subsidiaries and amounts due from subsidiary undertakings, neither of which was dealt with in the Group result.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

11. INTANGIBLE ASSETS

Group

	Goodwill £'000	Commissions processing software and development costs £'000	Acquired customer relationships £'000	Acquired Appointed Representative and adviser contracts £'000	Total £'000
Cost					
At 1 January 2010	11,523	350	1,183	9,516	22,572
Disposals	(34)	–	–	–	(34)
At 31 December 2010	11,489	350	1,183	9,516	22,538
Acquisitions/disposals	–	–	–	–	–
At 31 December 2011	**11,489**	**350**	**1,183**	**9,516**	**22,538**
Amortisation					
At 1 January 2010	6,550	196	362	3,430	10,538
Charge for the year	–	70	132	571	773
Disposals	(1)	–	–	–	(1)
At 31 December 2010	6,549	266	494	4,001	11,310
Charge for the year	–	65	131	572	768
At 31 December 2011	**6,549**	**331**	**625**	**4,573**	**12,078**
Net book amount					
At 31 December 2011	**4,940**	**19**	**558**	**4,943**	**10,460**
At 31 December 2010	4,940	84	689	5,515	11,228

The values of goodwill allocated to the Network segment (£5,738,000) was fully amortised or impaired as at 31 December 2010 and 2011.

The recoverable amount of each CGU is determined by a value in use calculation using cash flow projections based on the Group's latest approved budget for the 2012 financial year and its forecast for financial years to 2015. Long-term cashflows are projected from the 2015 forecast using a real growth rate of 1.5% in each of 2015 and 2016 and 2% thereafter, being the directors' best estimate of the long-term growth rate of the UK economy. Cashflows, which exclude inflation, are discounted at a real, not nominal, post-tax discount rate of 11.25% which equates to a nominal pre-tax discount rate of 15%.

The calculation of values in use is most sensitive to:

- the assumption relating to the fundamental changes in the market for retail financial services in the UK that will result from the Retail Distribution Review ("RDR");
- the assumed rate of long-term growth in cashflows and
- the discount rate applied to the estimated future cashflows.

Management has based its estimates of future cashflows on a cautious assessment of the impact of future external market conditions on investors' appetite for investment products, including market estimates of the likely impact of the RDR on future revenue. The discount rate has been set on the basis of management's assessment of the risks applicable to the future cash flows of the CGU in question. In the opinion of management there is no discernable difference in the risk profile of the three CGUs and accordingly the same discount rate has been applied to the estimated future cash flows of each CGU.

Management believes that the discount rate applied is in line with discount rates for businesses of a similar risk profile to that of the Group.

The impact of variations in the assumed growth rate and post-tax discount rates applied to the estimated future cash flows of the CGUs has been estimated as follows:

	Increase/(decrease) of value in use of		
	National £'000	Network £'000	Specialist Services £'000
A 1% increase in the post-tax discount rate applied to the estimated future cash flows	(353)	(432)	(227)
A 1% decrease in the post-tax discount rate applied to the estimated future cash flows	415	507	266
A 0.5% reduction in growth rate assumed from 2015 onwards	(201)	(243)	(235)
A 0.5% increase in the growth rate assumed from 2015 onwards	224	269	261

The sensitivity in respect of an increase or decrease of 0.5% in the future growth rate has been applied from 2015 on as in the opinion of the directors the assumed level of growth in the market for the distribution of retail financial product in the UK in the short-to-medium-term already reflects the general level of uncertainty prevalent at the current time and the likely impact of the RDR.

The headroom in the base case for Specialist Services, which management believes to be a prudent estimate of the value in use, is such that the impairment is especially sensitive to variations in assumptions for this CGU. The negative sensitivities shown, should they occur, would reduce the recoverable amount to such a level that impairment would have to be considered.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements £'000	Office & computer equipment £'000	Total £'000
Cost			
At 1 January 2010	170	1,677	1,847
Additions at cost	–	130	130
Disposals	–	(13)	(13)
At 31 December 2010	170	1,794	1,964
Additions at cost	–	73	73
Disposals	–	(2)	(2)
At 31 December 2011	**170**	**1,865**	**2,035**
Depreciation			
At 1 January 2010	123	1,450	1,573
Provided in the year	35	165	200
Disposals	–	(11)	(11)
At 31 December 2010	158	1,604	1,762
Provided in the year	12	115	127
Disposals	–	–	–
At 31 December 2011	**170**	**1,719**	**1,889**
Net book amount			
At 31 December 2011	**–**	**146**	**146**
Net book amount			
At 31 December 2010	12	190	202

13. INVESTMENTS

The Group

	2011 £'000	2010 £'000
Fair value of listed investment at 1 January	**135**	120
(Decrease)/increase in fair value in period to 31 December taken to equity	**(7)**	15
Fair value at 31 December	**128**	135

The listed investment comprises a Level 3 financial asset (as defined in IFRS 7) and its fair value equates to its market value. No charge or credit to income tax arose on the increase or diminution in value in either 2011 or 2010.

The fair value of the investment has been based on the surrender value as notified by the relevant financial institution. Given the relative immateriality of the Level 3 financial assets held, relatively large changes in the assumptions used to value the financial instrument are unlikely to have a material impact on the Group's financial position.

The Company – investments in subsidiary undertakings

	2011 £'000	2010 £'000
Cost at 1 January	**19,410**	19,840
Equity contribution to subsidiary undertaking in respect of share-based payments pursuant to IFRIC 8	**32**	45
Disposal of subsidiaries (see below)	**–**	(475)
Transferred from subsidiary undertaking	**1,218**	–
Cost at 31 December	**20,660**	19,410
Provision for impairment at 1 January	**(11,694)**	(12,124)
Provisions for impairment made in the year	**(32)**	(45)
Released on disposal of subsidiaries (see below)	**–**	475
Provision for impairment at 31 December	**(11,726)**	(11,694)
Net book value	**8,934**	7,716

The reported details in 2010 were in respect of:

- the disposal of the Company's wholly-owned subsidiaries, City Trustees Limited and City Pensions Limited on 9 August 2010;
- the acquisition by a subsidiary company of the remaining 15% issued share capital of Financial Synergies Limited and the subsequent dissolution of that company on 15 February 2011; and
- the acquisition by the Company of the whole of the issued share capital of Lighthouse Direct Limited on 11 November 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Subsidiary undertakings

The principal trading subsidiary undertakings are:

Name of company	Nature of business	% of issued shares held and voting rights
Lighthouse Advisory Services Limited (formerly LighthouseXpress Limited)	Provision of regulatory authorisation and business services	100%
Lighthouse Financial Advice Limited (formerly LighthouseTemple Limited)	Provision of independent financial advice	100%
LighthouseCarrwood Limited	Provision of independent financial advice	100%
LighthouseWealth Limited	Provision of independent financial advice	100%
Falcon Financial Advice Limited (formerly Lighthouse Corporate Limited)	Provision of independent financial advice	100%
Lighthouse Corporate Services Limited	Provision of business services	100%
Financial Services Advice and Support Limited (see below)	Provision of regulatory authorisation and business services	100%
Deverill Black & Company Limited (see below)	Provision of independent financial advice	50.1%

All interests in the subsidiaries above are held by the parent company with the exception of Deverill Black & Company Limited, which is held by Sumus Limited, a wholly-owned subsidiary of the Company. All companies are incorporated and operate in Great Britain, are included in the Group financial statements and are trading. All holdings relate to ordinary share capital in the subsidiaries which are included as such by virtue of the holdings meeting the definition contained within the Companies Act 2006 SI 2008 No.410 Sch.4 para. 16(3).

During the year The Falcon Group Limited ("Falcon", formerly The Falcon Group Plc), a wholly-owned subsidiary, transferred its trade and all its advisers to Lighthouse Advisory Services Limited, a fellow subsidiary company, and ceased its ongoing business activities. Similarly Financial Services Advice and Support Limited ("FSAS") also transferred its trade and its advisers to Lighthouse Advisory Services Limited and has effectively ceased its regulated activities as at 31 December 2011, which process is expected to be completed in early 2012.

In addition, the Company has a number of dormant, non-trading, subsidiaries which have not been disclosed above as they are immaterial under the exemption allowed by the Companies Act 2006 section 410. Full details of all subsidiary undertakings are set out in the latest Annual Return of the Company filed with the Registrar of Companies.

There are no restrictions on the ability of any subsidiary to transfer funds to the Company to repay loans or advances or, in the case of regulated entities, to pay cash dividends, other than those amounts required to maintain the regulatory capital of those companies. The distributable reserves of Lighthouse Advisory Services Limited and Financial Services Advice and Support Limited exceeded their regulatory surpluses at 31 December 2011 by £2,978,000 and £216,000 respectively. The Falcon Group Limited, which had a deficit of some £1.7m at 31 December 2011, no longer has any regulated activity.

14. BUSINESS COMBINATIONS

Disposal of subsidiary undertakings

The reported details in 2010 were in respect of the sale of the issued share capital of the Company's subsidiary companies, City Pensions Limited and City Trustees Limited, to Mattioli Woods Plc on 9 August 2010. The transaction resulted in a gain on disposal of £1,236,000 being recorded, details of which were disclosed in the Group's 2010 Annual Report.

Under the terms of the Share Purchase Agreement dated 9 August 2010, the Company may be required to reimburse a proportion of the consideration received should schemes currently advised by certain Lighthouse Group advisers cease to be administered by, other than at the volition of, Mattioli Woods Plc.

The maximum amount refundable under the Share Purchase Agreement would be £350,000.

15. TRADE AND OTHER RECEIVABLES

	Group 2011 £'000	**Company 2011 £'000**	Group 2010 £'000	Company 2010 £'000
Trade receivables	**2,667**	**–**	3,627	–
Amounts owed by group undertakings	**–**	**2,108**	–	4,410
Other receivables	**3,295**	**–**	3,170	–
Prepayments and accrued income	**1,354**	**–**	927	–
	7,316	**2,108**	7,724	4,410

Trade receivables are non-interest-bearing and generally on industry terms of 90 days.

Trade receivables include amounts recoverable from advisers in respect of the clawback of indemnity commission and complaints. Other receivables include amounts recoverable from insurers in respect of the complaints provision (Note 18).

The movement in Group provisions for impairment against trade receivables was:

	2011 £'000	2010 £'000
At the beginning of the year	**578**	425
Charged to the Statement of Comprehensive Income	**226**	224
Utilised during the year	**(130)**	(71)
At the end of the year	**674**	578

Amounts owed by group undertakings in the Company's balance sheet are stated net of an impairment provision of £7,024,000 (2010: £5,194,000).

As at 31 December, the ageing analysis of trade receivables is as follows:

				Past due but not impaired			
	Total £'000	Future due £'000	Neither past due nor impaired £'000	30 days £'000	60 days £'000	90 days £'000	>90 days £'000
2011	**2,667**	**865**	**1,024**	**302**	**303**	**13**	**160**
2010	3,627	1,047	1,403	381	579	111	106

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

16. CASH AND SHORT TERM DEPOSITS

	2011 £'000	2010 £'000
Short-term deposits	**11,453**	13,084
Cash at bank and in hand	**442**	840
	11,895	13,924

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of up to three months, 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 £11,895,000 (2010: £13,924,000).

17. TRADE AND OTHER PAYABLES

Current:

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Trade payables	**6,389**	**–**	6,429	–
Amounts owed to group undertakings	**–**	**1,218**	–	–
Other taxation and social security	**348**	**–**	438	–
Other payables	**38**	**–**	381	–
Deferred consideration and transaction costs	**12**	**–**	144	–
Accruals and deferred income	**1,971**	**–**	966	–
Corporation tax	**13**	**–**	40	–
Other financial liabilities – trade facility (secured)	**900**	**–**	1,800	–
	9,671	**1,218**	10,198	–

Included within other payables is an amount of £8,000 (2010: £8,000) in respect of unpaid pension contributions.

Terms and conditions of the above trade and other payables:
Trade payables are non-interest-bearing and are normally settled on receipt of funds from product providers, or within 30 days in respect of overheads. Other taxation and social security are non-interest-bearing and have an average term of one month.

Accruals and deferred income are non-interest-bearing and are settled according to their specific circumstances.

Corporation tax liabilities are paid in quarterly instalments commencing halfway through the accounting period in which they arise in those subsidiaries which currently pay corporation tax.

Non-current:

	Group 2011 £'000	Group 2010 £'000
Other financial liabilities – trade finance facility (secured)	**–**	900
Deferred consideration	**–**	12
	–	912

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

The trade finance facility is with a UK financial institution and is secured solely on monies held within a specific bank account operated by the Group. The balance on that account as at 31 December 2011 was £Nil (2010: £Nil). The facility is repayable in one further instalment in May 2012 and the outstanding balance attracts interest at 1 per cent. per annum above LIBOR, payable quarterly in arrears.

The trade facility matures as follows:

	2011 £'000	2010 £'000
In less than one year	**900**	1,800
In one to two years	**–**	900
	900	2,700

There are no other covenants or other security arrangements applicable to the facility.

Of the deferred consideration, £12,000 (2010: £144,000) is repayable within one year and £nil (2010: £12,000) is repayable between one and two years from the balance sheet date.

The Group has entered into commercial leases on certain properties, motor vehicles and items of equipment. These leases have a duration of between 3 and 5 years (in the case of properties up to the date of the next break clause). Only the property lease agreements contain an option for renewal, and no restrictions are placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group 2011 £'000	**Company 2011 £'000**	Group 2010 £'000	Company 2010 £'000
Future minimum payments due:				
Not later than one year	**396**	**–**	458	–
After one year but not more than five years	**734**	**–**	949	–
In more than five years	**210**	**–**	–	–
	1,340	**–**	1,407	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

18. PROVISIONS

Group

	Provision for clawback of indemnity commission £'000	Complaints provision £'000	Other provisions £'000	Total £'000
At 1 January 2011				
Current	1,389	2,857	–	4,246
Non-current	1,476	405	650	2,531
	2,865	3,262	650	6,777
Charged to the Statement of Comprehensive Income	1,315	1,264	2,738	5,317
Utilised during the year	(1,582)	(1,701)	(646)	(3,929)
At 31 December 2011	**2,598**	**2,825**	**2,742**	**8,165**
Analysed as:				
Current	**1,136**	**1,947**	**2,742**	**5,825**
Non-current	**1,462**	**878**	**–**	**2,340**
	2,598	**2,825**	**2,742**	**8,165**

Provision for clawback of indemnity commission

The provision for clawback of indemnity commission represents the expected cost of clawbacks from product providers for subsequent policy cancellations and mid-term adjustments in respect of policies written at 31 December 2011. The amount represents the gross obligation and, where these amounts can be recovered from advisers an asset is recognised. At 31 December 2011, the gross amount recognised was £1,700,000 (2010: £2,022,000). In arriving at the amounts recoverable from advisers account is taken of accumulated credit balances on their accounts where appropriate and in accordance with the terms of their contracts.

Complaints provision

The complaints provision represents the expected cost of settling claims from clients and the amount represents the gross obligation, and where these amounts can be recovered from advisers and insurers an asset is recognised. At 31 December 2011, the amount recognised within trade and other debtors was £2,459,000 (2010 £2,603,000).

Other provisions

Other provisions represent the directors' best estimates of amounts payable in respect of potential commercial liabilities arising from the closure and historic trading of subsidiary undertakings, including £2.5 million in relation to Falcon.

Provisions – Company

A provision is made against subsidiary undertakings where the net asset value of that subsidiary is negative at the balance sheet date. Provision is made firstly against the cost of the investment in the subsidiary, and then against the amount due from that group undertaking if applicable. Where the negative net asset values exceed the combined cost of investment and any amount due from the subsidiary undertaking a further provision is made in the balance sheet.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise an available-for-sale investment, cash, receivables and payables. The Group and the Company have financed their operations principally from equity share issues and operational cash flows.

Credit risk
The Group trades only with established third party financial institutions. In addition, receivable balances (including those due from advisers) are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 15.

With respect to credit risk arising from the other financial assets of the Group, which comprise an available-for-sale asset, cash and cash equivalents, the Group's exposure to credit risk arises from the possibility of default of the relevant regulated financial institution or authorised deposit taker, with a maximum exposure equal to the carrying amount of these instruments. The Group monitors such risks by reviewing the length and disposition of its deposits on a regular basis.

The Company does not trade and hence has no external credit risk.

Concentration risk
This is the risk that material loss might arise from an excessive placing of the Group's financial resources with a counterparty that might subsequently default, resulting in loss to the Group.

In order to manage this risk, the Group reviews the level of business undertaken with its institutional counterparties on a regular basis with periodic reports being submitted to senior management and the Board.

The Company does not undertake transactions with such counterparties and hence has no concentration risk.

Interest rate risk
The Group also has a non-derivative financial instrument, being a secured trade finance facility, on which interest accrues at the interbank lending rate plus 1%. The amount outstanding in respect of this instrument is significantly less than the monies the Group has on deposit with UK clearing financial institutions and as the interest rate varies with LIBOR any fluctuations in such costs should be adequately covered by finance income from its cash deposits.

With regard to finance revenue the Group had significant cash balances throughout the year and as at 31 December 2011. Cash at bank earns interest at floating rates based primarily on three month bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The Company has no interest-bearing financial assets or liabilities and hence has no interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit before tax.

	Increase/decrease in interest rates £'000	Effect on profit before tax £'000	Effect on equity £'000
For the 12 months ended 31 December 2011	**+1%**	**95**	**95**
	-1%	**(55)**	**(55)**
For the 12 months ended 31 December 2010	+1%	79	79
	-1%	(7)	(7)

Liquidity risk

The Group's liquidity risk is that it would not have sufficient financial resources, even whilst solvent, to enable it to pay its obligations as they fall due or only at excessive cost. The Group manages its liquidity risk by ensuring that commissions payable to advisers are not remitted until funds have been received by the Group, and by monthly treasury management where projected cash flow requirements are monitored and reviewed. In addition, the Group retains sufficient working capital and ready cash balances to ensure that its requirements are met on a day-to-day basis. The Company does not trade and therefore has no liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Total £'000
Year ended 31 December 2011						
Trade and other payables	**5,463**	**429**	**1,457**	**–**	**–**	**7,349**
Other financial liabilities	**956**	**592**	**774**	**–**	**–**	**2,322**
	6,419	**1,021**	**2,231**	**–**	**–**	**9,671**
Year ended 31 December 2010						
Trade and other payables	5,699	359	1,347	900	–	8,305
Other financial liabilities	1,137	326	1,330	12	–	2,805
	6,836	685	2,677	912	–	11,110

Market price risk

The Group's income is directly aligned to the external economic conditions in the markets in which it operates, namely the distribution of retail financial products in the UK. Lower market returns may reduce investors' appetite for investment products, and reduce the income derived from funds-based products. In order to manage this risk the Group reviews the spread of its income and average adviser production on a regular basis, enabling it to take corrective action to mitigate the impact of such market variations. The Company does not have any income except for dividends receivable from subsidiary undertakings.

Fair value of financial instruments

There is no significant difference between the book values and fair values of the financial assets and liabilities and the latter are reviewed on a regular basis to ensure that no such exposure arises or, if it does, to enable the Group and the Company to take action to mitigate or eliminate any such potential loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Borrowing facilities
Neither the Company nor the Group has any undrawn committed borrowing facilities available at 31 December 2011 (2010: £nil).

Currency risk
Neither the Company nor the Group is exposed to currency risk as they do not trade in foreign currencies.

Capital management
The primary objective of the Group's capital management policy is to ensure that it maintains strong regulatory and group capital ratios in order to support its business and maximise shareholder value. The Group has financed its operations principally from equity shares. It manages its capital structure and makes adjustments to it in the light of changes in economic conditions. The Board regularly monitors the position based on regular management information. No changes were made in the objectives, policies or processes in the year.

The Board has considered the adequacy of the above policy in the light of the significant downturn experienced within the UK economy in recent years, including its impact on, *inter alia*, the adequacy of regulatory capital, its ongoing dividend policy and the ability to raise such external funds as may be required to meet the Group's current and future objectives. The Board has concluded that, in the light of current trading and the economic outlook for the short- and medium-term, its capital structure and polices for managing it remain appropriate.

The Group has maintained throughout 2011 and 2010 and will continue to maintain sufficient capital to meet the regulatory requirements of its regulated subsidiaries with the exception of Falcon (see Note 13) where a deficit on regulatory capital exists. The deficit is based on criteria which are no longer strictly relevant to Falcon as it ceased all regulated activities during the latter part of 2011.

Treasury management
The most significant treasury matters dealt with by the Group are raising finance and investing surplus cash in high quality assets. Clear parameters have been established, including authority levels, on the type and use of financial instruments to manage these exposures, which at present do not permit the use of any derivatives or hedges. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews by the Board.

20. SHARE CAPITAL

	2011		2010	
Ordinary shares of 1p each	**Number**	**£'000**	Number	£'000
Authorised	**200,000,000**	**2,000**	200,000,000	2,000
Allotted issued and fully paid				
At the beginning of the year	**127,700,298**	**1,277**	127,700,298	1,277
At the end of the year	**127,700,298**	**1,277**	127,700,298	1,277

The ordinary shares of the Company rank *pari passu* in all respects as regards voting rights, distribution and repayment of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2011

Number of share options at 31 December 2010	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2011	Exercise price (Pence)	Exercise period
138,462	–	–	–	138,462	32.5	23/01/06 and 22/01/13
3,557,696	–	–	–	3,557,696	24.0	23/10/10 and 22/10/17
2,517,732	–	–	–	2,517,732	21.5	12/05/11 and 11/05/18
6,213,890	–	–	–	6,213,890		

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2010

Number of share options at 31 December 2009	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2010	Exercise price (Pence)	Exercise period
138,462	–	–	–	138,462	32.5	23/01/06 and 22/01/13
3,557,696	–	–	–	3,557,696	24.0	23/10/10 and 22/10/17
2,517,732	–	–	–	2,517,732	21.5	12/05/11 and 11/05/18
6,213,890	–	–	–	6,213,890		

Under the Company's Unapproved Share Option Scheme for advisers the following options were held at 31 December 2011

Number of share options at 31 December 2010	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2011	Exercise price (Pence)	Exercise period
272,638	–	–	–	272,638	1.0	30/09/04 and 30/12/14
13,769	–	–	–	13,769	1.0	17/08/04 and 16/08/14
286,407	–	–	–	286,407		

Under the Company's Unapproved Share Option Scheme for advisers the following options were held at 31 December 2010

Number of share options at 31 December 2009	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2010	Exercise price (Pence)	Exercise period
272,638	–	–	–	272,638	1.0	30/09/04 and 30/12/14
13,769	–	–	–	13,769	1.0	17/08/04 and 16/08/14
286,407	–	–	–	286,407		

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2011

Number of share options at 31 December 2010	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2011	Exercise price (Pence)	Exercise period
241,024	**–**	**–**	**–**	**241,024**	**32.5**	**23/01/06 and 22/01/13**
15,386	**–**	**–**	**–**	**15,386**	**23.5**	**01/05/06 and 30/04/13**
35,897	**–**	**–**	**–**	**35,897**	**25.0**	**15/08/06 and 14/08/13**
15,385	**–**	**–**	**–**	**15,385**	**26.5**	**04/02/07 and 03/02/14**
20,512	**–**	**–**	**–**	**20,512**	**19.0**	**13/12/07 and 12/12/14**
243,242	**–**	**–**	**–**	**243,242**	**18.5**	**25/04/09 and 24/04/16**
170,512	**–**	**–**	**(10,258)**	**160,254**	**21.0**	**15/03/09 and 14/03/16**
25,000	**–**	**–**	**–**	**25,000**	**21.0**	**01/06/09 and 31/05/16**
82,500	**–**	**–**	**–**	**82,500**	**20.0**	**06/03/10 and 05/03/17**
65,000	**–**	**–**	**–**	**65,000**	**29.0**	**27/07/10 and 26/07/17**
458,590	**–**	**–**	**–**	**458,590**	**24.0**	**23/10/10 and 22/10/17**
50,000	**–**	**–**	**–**	**50,000**	**22.5**	**31/03/11 and 30/03/18**
457,444	**–**	**–**	**–**	**457,444**	**21.5**	**12/05/11 and 11/05/18**
1,880,492	**–**	**–**	**(10,258)**	**1,870,234**		

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2010

Number of share options at 31 December 2009	Number of share options granted in the year	Number of share options exercised in the year	Number of share options lapsed in the year	Number of share options at 31 December 2010	Exercise price (Pence)	Exercise period
3,200	–	–	(3,200)	–	162.0	06/04/04 and 05/04/11
348,716	–	–	(107,692)	241,024	32.5	23/01/06 and 22/01/13
15,386	–	–	–	15,386	23.5	01/05/06 and 30/04/13
35,897	–	–	–	35,897	25.0	15/08/06 and 14/08/13
15,385	–	–	–	15,385	26.5	04/02/07 and 03/02/14
46,153	–	–	(25,641)	20,512	19.0	13/12/07 and 12/12/14
283,783	–	–	(40,541)	243,242	18.5	25/04/09 and 24/04/16
170,512	–	–	–	170,512	21.0	15/03/09 and 14/03/16
25,000	–	–	–	25,000	21.0	01/06/09 and 31/05/16
94,500	–	–	(12,000)	82,500	20.0	06/03/10 and 05/03/17
65,000	–	–	–	65,000	29.0	27/07/10 and 26/07/17
473,975	–	–	(15,385)	458,590	24.0	23/10/10 and 22/10/17
50,000	–	–	–	50,000	22.5	31/03/11 and 30/03/18
506,206	–	–	(48,762)	457,444	21.5	12/05/11 and 11/05/18
2,133,713	–	–	(253,221)	1,880,492		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

21. SHARE-BASED PAYMENTS

(a) There are three share option schemes currently operated by the Group. These are as follows:

The approved scheme for employees
This plan is open to all employees once they have been in service for a length of time as from time to time agreed by the Board. The options will vest if the employee remains in service for a period of three years from the date the option was granted. The exercise price of the option is the prevailing market price at the date of grant. The contractual life of the option is ten years and there are no cash settlement alternatives. There are no performance conditions attached and the options lapse should the employee leave.

The unapproved scheme for employees
The terms for this plan are identical to the approved scheme for employees; the scheme exists for those employees who are granted options in excess of HM Revenue and Customs limits.

The unapproved scheme for advisers
This plan exists in order to provide incentives to some advisers, notably on acquisitions, and to align adviser expectations to those of shareholders. Grant of options is at the discretion of the Board. The vesting period ranges from immediate to 21 months and is dependent on the adviser being regulated through the Group at the time of exercise. The contractual lives of the options range from 18 months to 10 years and the options lapse should the adviser cease to be authorised through the Group. There are no performance conditions attached.

(b) The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2011 Number	**2011 WAEP (pence)**	2010 Number	2010 WAEP (pence)
Outstanding at 1 January	**8,380,789**	**22.47**	8,634,010	22.61
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(10,258)**	**25.00**	(253,221)	27.30
Outstanding at 31 December	**8,370,531**	**22.47**	8,380,789	22.47
Exercisable 31 December	**8,370,531**	**22.47**	5,355,613	23.01

Included within the opening balance are options over nil (2010: 3,200) shares that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002. These options have not subsequently been modified and therefore do not need to be accounted for in accordance with IFRS 2. No options were granted in either 2011 or 2010.

For the share options outstanding at 31 December 2011, the weighted average remaining contractual life is 5.57 years (2010: 6.57 years). The range of exercise prices for options outstanding at 31 December 2011 was 1 pence to 32.5 pence (2010: 1 pence to 32.5 pence).

(c) **Expense charged to the Statement of Comprehensive Income**

The total expense recognised for the year arising from equity compensation plans was as follows:

	2011 £'000	2010 £'000
Fair value of options	**32**	45
	32	45

(d) **Fair value of options granted during the year**

No options were granted in either 2011 or 2010.

22. SPECIAL NON-DISTRIBUTABLE RESERVE

This reserve arose from a reduction in the Company's share premium account undertaken during the year ended 31 December 2008.

23. COMMITMENTS AND CONTINGENT LIABILITIES – CAPITAL COMMITMENTS

Neither the Group or the Company had any capital commitments as at 31 December 2011 (2010: £nil).

24. RELATED PARTY TRANSACTIONS

During the year, the Group paid property rents totalling £101,000 (2010: £101,000) to Capitecs Limited, a company under the control of A Rosengren, who was a director of the Company until October 2011, and J P Telling. Messrs Rosengren and Telling are both directors and controllers of Capitecs Limited. At 31 December 2011 the amount due to Capitecs Limited was £Nil (2010: £Nil).

In addition during the year the Group paid property rents totalling £20,000 (2010: £20,000) in respect of a property occupied by a subsidiary company and owned by a limited partnership consortium in which Capitecs Limited is understood to hold a one-third interest.

There have been no other transactions with key management personnel except as disclosed in the Directors' Remuneration Report.

Principal areas of activity

The principal activity of the Group is **the provision of financial advice on retail financial investments and regulatory authorisation and related services to independent financial advisers** operating from locations across the UK. The Group comprises three operating segments:

Lighthouse Financial Advice (LFA):
- National business with some 200 self-employed advisers.
- Advisers use the Lighthouse Financial Advice brand.
- Higher margins and more support/direction from Group management.
- 15,000 client appointments generated in 2011.

Lighthouse Advisory Services (LASER):
- Network offering supporting some 370 self-employed advisers.
- Mainly sole traders or Appointed Representative firms using their own brands.
- The Group provides regulatory cover, risk management, professional indemnity insurance and commission collection and processing.

Specialist Services:
- 25 employed advisers under LighthouseCarrwood and Lighthouse Group Employee Benefits brands.
- Specialist advice on pensions and employee benefits, mainly through professional and other affinity and employer relationships, to high net worth individuals and corporate clients.

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