LIGHTHOUSEGROUP

Financial Adviser Life & Pensions awards 2012
Winner
Large IFA Firm of the Year

# REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2012

## Key facts

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

During 2012 the Group was named **"Large IFA of the Year" for the third consecutive year**, following a technical assessment by an independent judging panel on behalf of the Financial Times 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 2012 the Group announced contracts to provide financial advice to members of **BA Clubs,** the association for current and former employees of British Airways, **The Royal College of Nursing** and the **Allied Bakers Union,** as well as the renewal of the contract with the **Association of School and College Leaders (ASCL)** for a further three years. Since the end of the year a further contract has been signed, with the **Union of Shop, Distributive and Allied Workers**.

Lighthouse Financial Advice (LFA) aims to be **the "Go to" financial adviser for Middle Britain**. LFA is equipped for this significant growth with, among other things, a newly-established call centre and professional adviser training facilities near Brighton.

The Group has also **laid the foundations for growing and broadening the client base of its Specialist Services division**, which is increasingly becoming the technical reference point for other advisers in the Group.

All financial advisers across the Group have access for the first time to a **market-leading operating system, Lighthouse Fairway.** Based on **a unique integration of two leading software packages for business processing and risk profiling**, Intelligent Office and Dynamic Planner, it facilitates full client on-boarding, from first contact through to compliance sign-off, execution of any subsequent advice and invoicing.

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# DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

### Directors

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

### Registered Office
26 Throgmorton Street
London
EC2N 2AN

### Secretary
Mark Ross

### Registered number: 04042743

### Auditor
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### Solicitors
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London
EC2V 7EE

Foot Anstey LLP
Senate Court
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Exeter
EX1 1NT

### Bankers
NatWest Bank plc
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Exeter
EX4 3DL

### Brokers & Nominated Advisers
Shore Capital Stockbrokers Ltd
Bond Street House
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London
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### Public Relations
Abchurch Communications Ltd
125 Old Broad Street
London
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### Registrars
Capita Registrars
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Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

# CHAIRMAN'S STATEMENT

## OVERVIEW

I am pleased to present my first report on the full year results of Lighthouse Group since being appointed as Chairman of the Company in August 2012.

Lighthouse has made good progress during 2012, commencing the implementation of its growth strategy for Lighthouse Financial Advice ("LFA") under which the Group aims to double the number of advisers in that division over the next two years. This has been made possible by the successful deployment of new IT systems, where we have invested almost £900,000 in the year, which will improve the efficiency of our operations and practices and facilitate improvements in the quality of advice to our customers. The continued growth of LFA is a priority for the Group.

An important growth area for LFA is with affinity groups, where three new contracts were secured in 2012 with BA Clubs, the association for current and former employees of British Airways, the Royal College of Nursing and the Allied Bakers Union, as well as the renewal of the Association of School and College Leaders contract for a further three years and the recent new contract with the trade union Usdaw.

At the same time we have created the foundations to grow and broaden the client base of LighthouseCarrwood which specialises in providing independent financial advice to high net worth individuals and professional clients, and to maintain the market position of our network division, Lighthouse Advisory Services, whose members will benefit during 2013 from the systems enhancements now deployed to LFA advisers.

I am delighted to report that for the third successive year Lighthouse Group was named as "Large IFA of the Year" following a detailed technical assessment by the FT publication, "*Financial Adviser*". This is an excellent achievement against stiff competition and provides a clear indication of the high level of professionalism with which the Group operates.

### TRADING HIGHLIGHTS

| | **2012** | 2011 |
|---|---|---|
| Revenue | **£55.0m** | £60.4m |
| Gross profit | **£15.0m** | £15.6m |
| Operating costs (before non-recurring items) | **£13.5m** | £14.0m |
| EBITDA* | **£1.5m** | £1.6m |
| Depreciation and amortisation | **£0.8m** | £0.9m |
| Non-recurring operating expenses | **£1.4m** | £3.4m |
| Impairment of intangible assets | **£3.9m** | – |
| (Loss)/earnings per share: | | |
| Basic before non-recurring operating expenses and impairment | **0.65p** | 0.72p |
| Basic | **(2.76p)** | (1.92p) |
| Dividend per share | **–** | 0.40p |

* Earnings before interest, tax, depreciation and amortisation and non-recurring operating expenses (including impairment charges).

These achievements were made whilst the Group successfully addressed a number of industry-related issues, including preparation for the changes introduced on 1 January 2013 by the Retail Distribution Review ("RDR"), the increasingly all-pervasive regulatory environment and dealing with customer redress issues arising primarily from historic trading within the Group's network division.

## RESULTS

Against the backdrop of such significant change, the Group recorded a creditable financial performance during 2012, with EBITDA (before non-recurring charges) of £1.5 million (2011: £1.6 million) on turnover of £55.0 million (2011: £60.4 million) being achieved. Gross margins increased by 1.6 per cent. to 27.4 per cent. and average adviser production increased by 14 per cent. to £87,000 per annum whilst overheads continued to reduce by £0.4 million, notwithstanding significant on-going upward pressure in areas such as professional indemnity insurance and regulatory costs.

Earnings per share before the impact of non-recurring operating expenses and impairment charge amounted to 0.65p (2011: 0.72p). The loss before taxation for the year was £4.6 million (2011: £2.7 million).

Non-recurring operating expenses in 2012 included £0.9 million in respect of professional advisory and consultancy costs incurred in order to prepare the Group for RDR and regulatory change and £0.5 million in respect of additional costs incurred during the year arising from reorganisations and restructuring in prior periods and from the proposed AIM de-listing process.

The non-recurring operating charge in 2011 was made to address the potential liabilities arising out of the historic trading of certain subsidiary companies. Significant progress has been made on these matters during the year but substantive issues remain, in particular those relating to Arch Cru, and therefore the residual provision of £1.6 million has been retained. The Board has reviewed the position in the light of information currently available and the action now to be taken at the behest of the regulator in contacting clients that bought the products involved and has concluded that the provisions retained are appropriate and adequate.

## IMPAIRMENT

In line with other companies in the financial services sector, the Board has undertaken the annual review of the carrying value of the Group's intangible assets that previously arose on business combinations, as is required by International Financial Reporting Standards.

In undertaking this review the Board has had regard to the well-developed growth plans in place for LFA and LighthouseCarrwood and the need for a more focused and risk-based approach to the development of our network business.

The review indicated that no impairment charge was required for intangible assets situated in either LFA or LighthouseCarrwood. However, based on a conservative assessment of the impact of reduced adviser numbers and changes in operating methods post RDR as well as general economic uncertainty, an impairment charge of £3.9 million has been taken against the carrying value of the Group's network intangible assets acquired as a result of the merger with Sumus Plc in May 2008, prior to the severe economic downturn experienced later in that year. This is a non-cash item and does not affect the Group's cash position or trading.

## FINANCIAL POSITION

The Group's year end cash balances amounted to £10.5 million (2011: £11 million after deduction of the LV= trade facility), the reduction being due primarily to the investment of almost £900,000 in new IT systems and processes and the payment of the final 2011 dividend of £345,000 in May 2012. The final tranche of the LV= trade facility amounting to £900,000 was fully repaid during 2012.

As noted in the Interim Report in September 2012, the Group has given undertakings to the Financial Services Authority ("FSA") that no distributions or non-trading payments will be made from its regulated subsidiaries without prior discussion with and assent from FSA.

A substantial proportion of the Group's cash balances are utilised in meeting its regulatory capital obligations and working capital requirements. The Company believes that it is prudent to retain the remainder of those funds (approximately £2 million) within the business to support trading immediately post RDR as well as to meet any potential claims for consumer redress that may arise from the historic trading in regulated subsidiaries.

## LOAN NOTES

The Group has invested considerable management time and some £1.4 million (including a £0.5 million capitalised investment) in its preparation for RDR and in augmenting its systems and processes, particularly for its national (LFA) operation. In addition in late 2012 the Company embarked upon plans to significantly increase the number of advisers operating in LFA. This will entail on-going investment in adviser recruitment and training, as well as in the provision of fully integrated technology solutions. To finance this, the Board has negotiated funding from two provider institutions totalling £820,000.

# CHAIRMAN'S STATEMENT (continued)

The funding has been received in March 2013 and takes the form of unsecured loan notes issued by the Company which is to be used solely for the purposes of the LFA 500 project. The loan notes bear interest at 8 per cent. per annum, rolled up until redemption in 2016, and a premium of 50 per cent. on the capital sum originally advanced will be paid if LFA achieves pre-determined targets in terms of revenues, adviser numbers and EBITDA for the year ending 31 December 2015. Such premium, if paid, is expected to be self-financing.

## BOARD CHANGES

My appointment as Chairman was announced on 30 August 2012 following the resignation of David Hickey as Executive Chairman and Director. The Board and I would like to thank David for his considerable contribution to the development of Lighthouse and we wish him well for the future.

In the Group's Interim Report issued in September 2012, I commented that the Board would seek to appoint additional Non-Executive Directors in due course. I am delighted to report the Group's announcement on 19 March 2013 that Fay Goddard, until recently the Chief Executive of the Personal Finance Society ("PFS"), has agreed to join the Board of Lighthouse as a Non-Executive Director with effect from 1 April 2013. Fay brings a wealth of experience, both from her time at the PFS and her previous role with the Association of Independent Financial Advisers and she will assist the Company in further embedding and enhancing professional standards and customer focus within the Group's operations.

## DIVIDEND

Although significant progress has been made since the publication of the Interim Report in September 2012, trading conditions following the implementation of the changes brought about by the RDR remain uncertain. In addition there remains uncertainty regarding the extent of any consumer redress that may be required as a result of the past trading of the Group's regulated entities, albeit the Board believes that the current level of provisioning for such costs is appropriate and adequate.

As a consequence of these issues the Board considers that it remains inappropriate to recommend a dividend payment at this time and accordingly no final dividend in respect of the current year is proposed (2011: £345,000 or 0.27 pence per share). The Board is however committed to returning the Company to the dividend list as soon as trading and regulatory conditions allow.

## STRATEGY AND PROSPECTS

The Group has made significant progress in positioning itself to thrive in the post-RDR world of Retail Financial Services, particularly through the anticipated growth in LFA and the benefits of the investment in IT systems made last year coming through into current year business performance.

Whilst in the short-term the Group expects a reduction in the level of business written, due to market uncertainties and the reduction in the number of advisers at the beginning of 2013 due to retirements as a result of RDR, improvements are expected in the quality of the business written and consequently in margins achieved as well as an increase in the number of advisers as the LFA growth plans are realised. Initial evidence here is encouraging as is the increase in the number of affinity group relationships which the Board believes is an important area for growth. In addition, the Group is investing in its specialist services business, LighthouseCarrwood, in order to broaden its operating base.

Finally, I would like thank all of our advisers for their continuing professionalism and loyalty to the Group and my fellow directors and all employees of Lighthouse for their considerable hard work and support during the year.

**Richard Last**
**Chairman**

**20 March 2013**

# CHIEF EXECUTIVE'S REVIEW

## OVERVIEW

Having completed the major regulatory re-structuring in 2011, creating one regulated entity from the three that previously operated, the Group moved forward in 2012 with significant technology investment aimed at creating an operating platform ready for the RDR implementation from the year end. The operating platform known as Lighthouse Fairway incorporates market-leading technology bespoked to the Group's unique requirements, this technology being a combination of Intelligent Office ("IO") and Distribution Technology ("DT").

Lighthouse Fairway has been a significant investment both in financial terms, with some £900,000 expensed in 2012 and a further £500,000 capitalised as an intangible asset, and as a major human resources project involving all of the Group's operating units and a wide range of senior staff. The first phase of Fairway was announced at the Group's "RDR – Ready to Go" conference in November 2012 and was delivered on time and launched formally in January 2013.

Professional financial advisers across the Group and in all divisions have access for the first time to a market-leading operating platform able to perform the full client on-boarding process from first contact through to execution of any subsequent advice and subsequent invoicing on a customer agreed basis, assisted by an embedded compliance process which links to the Group's central system.

Lighthouse Financial Advice ("LFA"), the Group's national division has had a notable year with further affinity contract wins which included BA Clubs, the association for current and former employees of British Airways, the Royal Collage of Nursing and the Allied Bakers Union as well as renewing a contract with the Association of School and College Leaders for a further three years. Since the end of the year a further new affinity contract was signed with the Union of Shop, Distributive and Allied Workers in March 2013. These new contract wins together with the Group's substantial existing affinity relationships have produced significant activity culminating in over 900 organised seminars and associated activity (including call centre follow ups) with almost 16,000 attendees which produced nearly 12,000 booked appointments for LFA advisers.

LighthouseCarrwood ("Carrwood"), the Group's employed specialist services division, continues to provide high quality advice to its generally high net worth client base sourced through professional connections and has a development plan to deliver controlled and profitable growth which is now being implemented.

Lighthouse Advisory Services ("LASER"), the Group's network division, continues to be home to experienced advisers operating in their own businesses who look to the Group for income collection, regulatory and professional indemnity insurance support services.

Investment Adviser qualifications have been uplifted with QCA4 being the now standard minimum qualification, coupled with a statement of professional standing from a recognised professional body.

All of the Group's advisers wishing to advise upon investment products have now reached the required new standard, or have elected to limit their advice to the mortgage- and protection-only fields of operation. New advisers now joining the Group will come with the relevant qualifications.

Lighthouse won the prestigious FT Business "Large IFA of the Year" award for the third consecutive year in 2012, a result of which the Group is justifiably very proud and, given the quality of the participants and an independent judging panel, is very creditable.

## OPERATIONS

The Group provides financial advice through three business segments as detailed below. At 31 December 2012 the Group employed 165 staff including employed advisers, with 5 operating locations in London (the plc head office), Exeter (commissions, finance and compliance operations centre), Stockport (base for Specialist Services), Woodingdean near Brighton (LFA operations centre) and Harewood near Harrogate (LFA satellite office).

# CHIEF EXECUTIVE'S REVIEW (continued)

As noted above, customer agreed remuneration invoice documentation is generated automatically by the new Lighthouse Fairway system and tracked and accounted for centrally. LFA and Carrwood, being the Group's own advisory businesses, use the system to the fullest possible extent, whilst LASER, the Group's network business, is encouraging its Appointed Representative members to consider adopting the system fully. It is a strategic aim that the entire Group will have fully adopted the Fairway model by 31 December 2013.

During the year the Group has, in support of its project to ensure RDR readiness by 31 December 2012, undertaken significant reviews with third party skilled assistance in areas such as its corporate governance and adviser controls environments. These reviews have identified and made recommendations for improvements in such areas which have been fully adopted by the Group (or are currently in the process of being so), and the significant investment made in Lighthouse Fairway will greatly assist this process.

## DIVISIONAL COMMENTARY

As indicated above, LFA has fully adopted Lighthouse Fairway and all advisers in the division have been trained on the software. LFA has significant growth plans in the post-RDR world and has in 2012 equipped itself for this growth, with a newly established call centre with allied professional adviser training facilities being opened near Brighton in September and the launch of the LFA academy at the end of the year.

This academy supports the full induction of new advisers, which commences with a full residential week's induction for new experienced joiners, and a new adviser transitional team and field support environment has been created to build on the successful initial induction. LFA aims to be the "Go to" adviser for Middle Britain and seeks to fill the significant gap in advice capability created by the UK clearing banks having all but exited the space in the past year. Carrwood (incorporating Group Employee Benefits) has maintained its position as a quality Specialist Services division serving the needs of higher net worth clients sourced from its 40 strong bank of accountancy connections. It is increasingly becoming the technical reference point for other advisers in the Group.

LASER, the Appointed Representative ("AR") network member division, has had to adapt to the significantly increased (and increasing) regulatory-driven requirements of the FSA. Its members have also had to embed the new business models that will be required in a post-RDR world, achieve the new higher level qualifications imposed by the RDR, embrace new technology and cope with customer agreed remuneration replacing provider commission, as well as meeting ever increasing third party costs such as the funding of the FSA, the compensation scheme (FSCS) and of course obligatory Professional Indemnity insurance costs.

Given the above it is not surprising that a number of AR firms have sought to leave the industry, merge with rivals, or move to a different status, all in an attempt to improve their trading position. The sector has witnessed the demise of some long-standing networks, where the legacy positions have been too much for future trading to continue. It is increasingly apparent that AR network models that are not defined and structured to ensure the necessary adviser controls are in place will struggle, not only financially but with the regulator which has increasingly significant control expectations of the regulated host.

Lighthouse will support fully a member-based network for those firms that adopt the positive enhancements afforded by Lighthouse Fairway and its other initiatives and share jointly with us the principle of de-risking operations for the future good of our mutual businesses and the clients we serve.

## PROFESSIONAL INDEMNITY INSURANCE

Professional indemnity ("PI") cover is an essential element of operating in the financial services marketplace, as without it a business simply cannot trade. Whilst the Group has achieved renewals of cover each year it has seen a relentless rise in premiums and associated excess levels since the credit crunch of 2008 began to bite in earnest, and it is increasingly apparent that the PI insurers are simply accessing the risks they wish to maintain at a premium price and withdrawing from the rest.

It is therefore essential that the Group presents a positive position to insurers, allied to a de-risking strategy, in order to avoid any future significant customer detriment issues that fall for PI insurers to deal with. In order to assist in the de-risking the Board has withdrawn from all UCIS (unregulated collective investment scheme) product distribution and has introduced fully researched Lighthouse investment panels for all advisers to use. These panels link to Dynamic Planner, the well-known and proven Risk Profiling tool supplied by DT, which is now embedded within IO through Lighthouse Fairway and is available to all advisers and AR firms to use.

## FINANCIAL COMMENTARY

The results of the Group for the year ended 31 December 2012 are set out in the Consolidated Statement of Comprehensive Income on page 24.

## REVENUE AND GROSS MARGINS

Total revenues for the year amounted to £55.0 million (2011: £60.4 million) with the second half contributing marginally more than the first half of the year (£27.9 million against £27.1 million). In a year when advisers will have spent a considerable amount of time studying for and obtaining the professional qualification necessary to continue to trade post 1 January 2013, the revenues generated in 2012 represent a considerable achievement.

Gross margins increased by 1.6 per cent. from 25.8 per cent. to 27.4 per cent. as a result of the increased proportion of total revenues derived from the Group's national and specialist services businesses, which attract higher margins due to the marketing, brand and lead generation (including affinities) provided to the advisers.

Recurring revenues reduced in line with turnover from £18.4 million to £16.7 million but remained over 30 per cent. of gross revenues.

## OPERATING COSTS

Operating costs (excluding non-recurring items, impairment and depreciation and amortisation charges) decreased by £414,000 from 2011, reflecting the efficiencies gained from the rationalisation of the Group's network operations in 2011. This decrease was despite significant upward pressure in such areas as professional indemnity insurance and allied complaints and regulatory fees.

## NON-RECURRING OPERATING EXPENSES

Non-recurring operating expenses in the year amounted to £1.4 million (2011: £3.4 million) and arose as follows:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Professional advisory and consultancy costs in relation to RDR preparation and other assistance in meeting regulatory change | **883** | – |
| Costs arising as a result of AIM de-listing process and consequential board changes | **314** | – |
| Closure costs and other potential liabilities incurred in respect of historic trading of subsidiary companies | – | 2,738 |
| Re-organisation costs on restructuring of business segments | **204** | 627 |
| | **1,401** | 3,365 |

The professional advisory and other consultancy costs were incurred in order to enable the Group to meet the considerable task of ensuring that its systems (including software), controls and processes and adviser business propositions were appropriate and sufficient to facilitate trading in the post-RDR environment, and involved a number of major projects over a nine month period.

The costs above include £259,000 paid in respect of the former Executive Chairman of the Group in order to meet the Group's contractual obligations in relation to his departure from the Board.

# CHIEF EXECUTIVE'S REVIEW (continued)

The reorganisation and restructuring costs included £100,000 in settlement of dilapidations and other issues in respect of the premises formerly occupied by the Group's two network businesses – The Falcon Group Limited and Financial Services Advice and Support Limited – that have now closed.

The process of addressing the potential liabilities arising out of the historic trading of subsidiary companies (including products distributed on behalf of organisations that have subsequently failed – e.g. Keydata – or suspended operations – e.g. Arch Cru) which resulted in a non-recurring charge of £2.7 million in 2011 has continued during the year. Whilst some of the matters have now been dealt with substantive issues remain and the residual provision of £1.6 million has been retained (see note 17). The Board has reviewed the position in the light of information currently available and the action now to be taken at the behest of the regulator in contacting clients that bought such products and has concluded that the provisions retained are appropriate.

## IMPAIRMENT

As detailed in the Chairman's Statement, the Group has completed the annual review of the carrying value of its intangible assets that previously arose on business combinations.

The review considered the net present value of the estimated future cash flows to be generated by its three principal operating segments – the national, network and specialist services units – in the light of the revised adviser numbers and operating methods in place following the implementation of the Retail Distribution Review ("RDR") on 1 January 2013 and the on-going challenging economic environment within which the Group operates.

In compiling those estimates regard was had to the well-developed growth plans in place for LFA and for specialist services and the need for a more focused and risk-rated approach in the network space. As a result and based on a conservative assessment of the above factors an impairment charge of £3.9 million has been taken solely against the carrying value of the Group's network intangible assets which arose primarily from the merger with Sumus plc in May 2008, before the severe economic downturn later in the year.

It should be emphasised that this is a non-cash item and is a conservative view of the likely future prospects of the Group's network operations.

## RESULTS FOR THE YEAR

The Group recorded an EBITDA before non-recurring items of £1.5 million against £1.6 million in 2011. This is a creditable achievement given the considerable time expended by advisers in gaining the professional qualifications necessary to continue trading post RDR and the significant management time absorbed across the Group in planning and delivering the Lighthouse Fairway initiative and in generally readying the business for post-RDR trading.

After charging £1.4 million for non-recurring items (2011: £3.4 million), £3.9 million (2011: £Nil) for impairment, and £0.8 million for depreciation and amortisation (2011: £0.9 million) the Group recorded an operating loss and loss before taxation for the year of £4.6 million (2011: operating loss and loss before taxation for the year of £2.7 million).

As impairment and depreciation and amortisation charges are non-cash items, the Group's cash result was an operating profit of £100,000 (2011: operating cash loss of £1.8 million).

## NET ASSETS AND TOTAL EQUITY

The Group's net assets decreased by £3.8 million to £7.2 million during the year, primarily as a result of the operating loss after impairment and non-recurring operating expenses of £4.6 million, as reduced by the release of deferred tax of £1.1 million previously provided on intangible assets that have now been fully impaired, and dividend payments amounting to £0.4 million.

## CASH FLOW, CASH BALANCES AND TREASURY

The trade facility provided by LV= in 2008 was fully repaid, on schedule, during 2012. Year end cash balances amounted to £10.5 million (2011: £11m after deduction of the trade facility), reflecting the investment in new systems and processes during the year and the payment of the final 2011 dividend of £345,000 in May 2012. The Group continues to be without bank debt.

As noted in the Chairman's statement, the Group has given undertakings that its regulated subsidiaries will not make distributions or non-trading payments without the prior consent of the FSA. After allowing for regulatory and working capital considerations, the Group has approximately £2 million cash available which is currently been retained to cover any short-term fluctuations that might arise from trading in the post-RDR environment.

During the year the rates available to the Group from three-month deposits declined markedly due to general market factors and are now no more attractive than instant access funds. Given this, and bearing in mind the ranking of longer term deposits for regulatory capital purposes, the Group's cash resources are now all held on overnight or seven day access accounts.

## PROSPECTS

The prospects for the Group are positive, the enhancement in technology already released will continue with further development planned, the ability to generate significant client activity through affinity partners is a core competency and the financial strength of the business and the quality and professionalism of the Group's advisers bode well for the future.

The year ahead will be challenging as both the Group and the industry adapt to the RDR requirements. Looking further ahead, LFA is positioned well as the "Go to" adviser for Middle Britain, Carrwood is positioned strongly in the professional space, and the member firms within LASER that adopt Fairway and utilise the Group's risk-rated research investment solutions should be able to sustain good quality businesses.

**Malcolm Streatfield**
**Chief Executive**

**20 March 2013**

# REPORT OF THE DIRECTORS

The directors present their annual report and financial statements for the year ended 31 December 2012.

## RESULTS AND DIVIDENDS

Earnings before depreciation, amortisation, non-recurring items, interest and tax were £1,509,000 (2011: £1,601,000). After impairment charge on intangible assets of £3,909,000, depreciation and amortisation of £813,000, net finance revenues of £33,000 and a tax credit of £1,084,000 the Group recorded a loss after tax but before non-controlling interests of £3,497,000 (2011: £2,406,000 loss).

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.

No dividends have been declared in respect of the financial year ended 31 December 2012 (2011: interim dividend of £166,000 or 0.13p per share, final dividend of £345,000 or 0.27p per share).

The total dividends recognised in the consolidated statement of changes in equity for the year ended 31 December 2012 were £345,000 (2011: £472,000).

## PRINCIPAL ACTIVITIES

The principal activities of the Group for the year were the provision of financial advice to customers and regulatory authorisation to 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") authorises all of the Group's advisers, including those in the national and specialist services operating segments; 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 Consolidated Statement of Comprehensive Income for the year is set out on page 24. 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 10 respectively.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### 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;
- 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 network or aggregated term services;
- increases in the scale of regulation imposed by UK and European governments;
- the ability of the Group to recruit advisers in sufficient quantities and of sufficient quality to enable its growth plans to be achieved;
- the availability of professional indemnity insurance within the market for distribution of retail financial products in the UK;
- an increasing tendency for UK consumers of retail financial products to make claims for redress in the light of lower than expected performance of such products; 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 fora 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 external market conditions. Lower market returns reduce investors' appetite for retail investment products and reduce the income derived from fund-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.

### Consumer and regulatory risks

The provision of financial advice (including in respect of mortgages and protection products) is regulated by the Financial Services Authority ("FSA"), soon to be the Financial Conduct Authority ("FCA") following the break-up of the FSA into the FCA and the Prudential Regulation Authority ("PRA"). 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 or individual case excesses arising from upheld complaints. 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. In addition clawbacks and complaints are closely monitored and recoveries from advisers initiated on the basis of agreed repayment schedules.

# REPORT OF THE DIRECTORS (continued)

Credit risks in respect of product providers are considered to be minimal, notwithstanding the recent turmoil in UK and global financial markets. With the implementation of customer agreed remuneration from 1 January 2013, the Group has initiated procedures to monitor closely amounts due from customers, as opposed to payments effected via product providers.

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 monies payable to advisers are not remitted until funds have been received by the Group, and by regular 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

The Group has recognised the challenges posed by the introduction of the Retail Distribution Review ("RDR") with effect from 1 January 2013, and has established fully researched and risk-rated product solutions across the investment, pension and protection marketplace. These will be mandatory in the LFA division, except where fully independent advice is required by the clients, in which case this will be supplied by LighthouseCarwood advisers.

The LFA 500 project, initiated in late 2012, will be the principal driver of future growth for the Group, deploying the researched solutions noted above through market-leading integrated software so as to provide clients with investment solutions appropriate to their documented attitude to risk.

Specific growth plans are being developed for the specialist services division which is currently sub-scale but has 40 professional accountancy connections from which it can leverage new advisers and clients.

## CHARITABLE DONATIONS

During the period, the Group donated £4,100 to charitable organisations (2011: £650) including amounts raised through 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 Group 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 18 to 21.

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:

| | |
|---|---|
| Richard Last | |
| Malcolm Streatfield | |
| Peter Smith | |
| Mark Ross | |
| Alex Scott-Barrett | |
| David Hickey | Resigned 30 August 2012 |

In accordance with the Articles of Association and the Companies Act 2006, Alex Scott-Barrett is required to retire from office and will offer himself for re-election at the forthcoming Annual General Meeting. Information in respect of directors' interests is disclosed in the Directors' Remuneration report on pages 18 to 21.

## SUBSTANTIAL SHAREHOLDINGS

As at 28 February 2013 the Company had been notified of the following interests in the ordinary share capital of the Company.

| Name of holder | Number | % |
|---|---|---|
| Mr. Allan Rosengren | 19,164,080 | 15.01 |
| 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 |
| Cavendish Asset Management | 6,710,000 | 5.25 |
| 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 |

## 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 2012 represented 32 days' purchases (2011: 24 days' purchases). The Company's creditor payment period was nil days (2011: 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 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.

## 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 Cash Flow Statement on pages 24, 27 and 28 respectively. In addition Note 18 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.

# REPORT OF THE DIRECTORS (continued)

The Group has considerable financial resources with some £10.5 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 2012 but which no longer has any regulated activity. As a consequence of the above, the directors believe that the Group is well-placed to manage its business risks successfully despite the current uncertain economic outlook.

As noted in the Chairman's Statement on page 4, the Group has given undertakings to the FSA that its regulated subsidiaries will not make distributions or non-trading payments without discussion with and consent from the FSA. These undertakings do not restrict the Group's normal trading activities.

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.

## POST BALANCE SHEET EVENT

In March 2013 the Company issued £820,000 Unsecured Loan Notes to two product providers in order to partly fund the investment required by the LFA 500 project, which is aimed at more than doubling the number of advisers within that division by 31 December 2015.

The loan notes are unsecured and bear interest at 8 per cent. per annum, rolled up until the notes are redeemed in 2016. They also carry a right to a premium on original amount invested of 50 per cent. should Lighthouse Financial Advice Limited ("LFA") meet targets for gross revenues and EBITDA for the year ending 31 December 2015, and adviser numbers as at that date in excess of those contained in the business plan for that division. Such a premium, if payable, is expected to be self-financing.

## 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 of 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 Alex Scott-Barrett (Chairman) and Richard Last, 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 the Group's Risk and Compliance Directors.

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.

The Remuneration Committee meets as required, normally 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 at least 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.

- **Consumer and regulatory controls:**
  The Group has a dedicated function overseeing all consumer facing and regulatory activities which reports regularly to the Board on its operations.

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.

# REPORT OF THE DIRECTORS (continued)

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 previously retained the services of an external firm of Chartered Accountants as internal auditor which reported directly to the Audit Committee and has now appointed an experienced qualified accountant who will report to the Risk Director and the Audit Committee in a newly created role as head of Internal Audit with effect from 1 January 2013.

## AUDITOR

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

**Mark Ross**
**Company Secretary**

**20 March 2013**

# DIRECTORS' REMUNERATION REPORT

## COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee who served during the year were:
Alex Scott-Barrett (Chairman)
Richard 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:

| **2012** | **D Hickey (to 30 August 2012) £'000** | **M Streatfield £'000** | **P Smith £'000** | **M Ross £'000** |
|---|---|---|---|---|
| **Salary & fees** | **140** | **221** | **172** | **110** |
| **Benefits** | **4** | **7** | **10** | **6** |
| **Bonus** | **–** | **–** | **–** | **–** |
| **Compensation for loss of office** | **232** | **–** | **–** | **–** |
| **Total excluding pensions** | **376** | **228** | **182** | **116** |
| **Pension** | **–** | **–** | **–** | **–** |
| **Total emoluments 2012** | **376** | **228** | **182** | **116** |

| 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 |

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:

| **2012** | **R Last £'000** | **A Scott-Barrett £'000** |
|---|---|---|
| **Salary & fees being total emoluments 2012** | **37** | **27** |

| 2011 | R Last £'000 | A Scott-Barrett £'000 |
|---|---|---|
| Salary & fees being total emoluments 2011 | 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 |
|---|---|---|---|---|---|
| Malcolm 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 | | | |
| Peter Smith | 21 May 2008 | 360,465 | 21.5p | 21 May 2011 | 20 May 2018 |
| Mark 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 |
|---|---|---|---|---|---|
| Malcolm Streatfield | 23 January 2003 | 92,307 | 32.5p | 23 January 2008 | 22 January 2013 |
| Peter Smith | 21 May 2008 | 139,535 | 21.5p | 21 May 2011 | 20 May 2018 |
| Mark 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 2012 was 3.75 pence per share and the highest and lowest share prices during the year were 6.05 pence and 2.62 pence. 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 2012 had the following beneficial interest in the ordinary share capital of the Company at 31 December 2012 according to the register of directors' interests:

| Director | **At 31 December 2012 No. of ordinary shares of 1p each** | At 31 December 2011 No. of ordinary shares of 1p each |
|---|---|---|
| Richard Last | **812,500** | 812,500 |
| Peter Smith | **217,500** | 217,500 |
| Alex Scott-Barrett | **280,000** | 280,000 |
| Malcolm Streatfield | **2,612,063** | 2,612,063 |

Mark Ross had no beneficial interest in the ordinary share capital of the Company at 31 December 2012 or at 31 December 2011.

As part of the holdings shown above, Malcolm Streatfield had beneficial interests in 1,168,615 ordinary shares held in his Self-Invested Personal Pension Plan.

Alex Scott-Barrett
Chairman, Remuneration Committee

20 March 2013

# 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. 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 2012 set out on pages 24 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 Directors' Responsibilities Statement set out on page 22, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**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 2012 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 Raisbeck
(Senior Statutory Auditor)

for and on behalf of

KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

20 March 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **55,045** | 60,383 |
| Cost of sales | | **(39,988)** | (44,820) |
| **Gross profit** | | **15,057** | 15,563 |
| **Administrative expenses** | | | |
| Other operating expenses | | **(13,548)** | (13,962) |
| **Earnings before interest, tax, depreciation, amortisation and non-recurring items** | | **1,509** | 1,601 |
| Non-recurring operating expenses | 5 | **(1,401)** | (3,365) |
| Total operating expenses | | **(14,949)** | (17,327) |
| Impairment charge on intangible assets | 11 | **(3,909)** | – |
| Depreciation and amortisation | 5 | **(813)** | (895) |
| **Total administrative expenses** | | **(19,671)** | (18,222) |
| **Operating loss** | 5 | **(4,614)** | (2,659) |
| Finance revenue | 6 | **87** | 86 |
| Finance costs | 6 | **(54)** | (84) |
| **Loss before taxation** | | **(4,581)** | (2,657) |
| Tax credit | 7 | **1,084** | 251 |
| **Loss for the year** | | **(3,497)** | (2,406) |
| **Other comprehensive income:** | | | |
| Increase/(diminution) in fair value of available-for-sale financial asset | 13 | **7** | (7) |
| **Total comprehensive loss for the year** | | **(3,490)** | (2,413) |
| **(Loss)/profit for the year attributable to:** | | | |
| Equity holders of the parent | | **(3,516)** | (2,444) |
| Non-controlling interest | | **19** | 38 |
| | | **(3,497)** | (2,406) |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Equity holders of the parent | | **(3,509)** | (2,451) |
| Non-controlling interest | | **19** | 38 |
| | | **(3,490)** | (2,413) |
| Basic loss per share | 8 | **(2.76p)** | (1.92p) |
| Diluted loss per share | 8 | **(2.76p)** | (1.92p) |

All activities are classed as continuing.

The notes on pages 30 to 62 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

| | Share capital | Share premium account | Merger reserve | Special non-distributable reserve arising from reduction in share premium | Reserves arising from share-based payments | Retained earnings | Total attributable to equity shareholders | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 1 January 2012** | **1,277** | **–** | **–** | **1,999** | **951** | **6,736** | **10,963** | **49** | **11,012** |
| **(Loss)/profit for the year** | **–** | **–** | **–** | **–** | **–** | **(3,516)** | **(3,516)** | **19** | **(3,497)** |
| **Increase in fair value of available-for-sale financial asset (Note 13)** | **–** | **–** | **–** | **–** | **–** | **7** | **7** | **–** | **7** |
| **Total comprehensive (loss)/income for the year** | **–** | **–** | **–** | **–** | **–** | **(3,509)** | **(3,509)** | **19** | **(3,490)** |
| **Share-based payment** | **–** | **–** | **–** | **–** | **32** | **–** | **32** | **–** | **32** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **(345)** | **(345)** | **(25)** | **(370)** |
| **At 31 December 2012** | **1,277** | **–** | **–** | **1,999** | **983** | **2,882** | **7,141** | **43** | **7,184** |
| 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 |

The notes on pages 30 to 62 form an integral part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

| | 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 2012** | **1,277** | **–** | **–** | **90** | **595** | **7,862** | **9,824** |
| **Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (Note 13)** | **–** | **–** | **–** | **–** | **32** | **–** | **32** |
| **Total comprehensive loss for the year** | **–** | **–** | **–** | **–** | **–** | **(4,072)** | **(4,072)** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **(345)** | **(345)** |
| **At 31 December 2012** | **1,277** | **–** | **–** | **90** | **627** | **3,445** | **5,439** |

| | 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 |

The notes on pages 30 to 62 form an integral part of these financial statements.

# STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2012

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | **11** | **6,346** | 10,460 | **–** | – |
| Property, plant and equipment | **12** | **215** | 146 | **–** | – |
| Available-for-sale investments | **13** | **135** | 128 | **–** | – |
| Investments in subsidiaries | **13** | **–** | – | **3,366** | 8,934 |
| | | **6,696** | 10,734 | **3,366** | 8,934 |
| **Current assets** | | | | | |
| Trade and other receivables | **14** | **8,808** | 7,316 | **2,073** | 2,108 |
| Cash and cash equivalents | **15** | **10,489** | 11,895 | **–** | – |
| | | **19,297** | 19,211 | **2,073** | 2,108 |
| **Total assets** | | **25,993** | 29,945 | **5,439** | 11,042 |
| **Current liabilities** | | | | | |
| Trade and other payables | **16** | **10,748** | 9,671 | **–** | 1,218 |
| Provisions | **17** | **5,785** | 5,825 | **–** | – |
| | | **16,533** | 15,496 | **–** | 1,218 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | **7** | **–** | 1,097 | **–** | – |
| Provisions | **17** | **2,276** | 2,340 | **–** | – |
| | | **2,276** | 3,437 | **–** | – |
| **Total liabilities** | | **18,809** | 18,933 | **–** | 1,218 |
| **Net assets** | | **7,184** | 11,012 | **5,439** | 9,824 |
| **Capital and reserves** | | | | | |
| Called-up share capital | **19** | **1,277** | 1,277 | **1,277** | 1,277 |
| Special non-distributable reserve | **21** | **1,999** | 1,999 | **90** | 90 |
| Other reserves – share-based payments | | **983** | 951 | **627** | 595 |
| Retained earnings | | **2,882** | 6,736 | **3,445** | 7,862 |
| **Total equity attributable to equity holders of the Company** | | **7,141** | 10,963 | **5,439** | 9,824 |
| Non-controlling interest | | **43** | 49 | **–** | – |
| **Total equity** | | **7,184** | 11,012 | **5,439** | 9,824 |

The financial statements on pages 24 to 62 were approved by the Board on 20 March 2013 and signed on its behalf by:

**Richard Last, Director**
**Peter Smith, Director**

The notes on pages 30 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 2012

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Loss before tax for the year** | | **(4,581)** | (2,657) |
| ***Adjustments to reconcile loss for the year to net cash inflows from operating activities*** | | | |
| Finance revenues | | **(87)** | (86) |
| Finance costs | | **54** | 84 |
| Loss on disposal of property, plant and equipment | | **–** | 2 |
| Impairment charge on intangible assets | | **3,909** | – |
| Depreciation of property, plant and equipment | | **96** | 127 |
| Amortisation of intangible assets | | **717** | 768 |
| Share-based payments | | **32** | 32 |
| Change in trade and other receivables | | **(1,489)** | 407 |
| Change in trade and other payables | | **2,003** | 532 |
| Change in provisions | | **(104)** | 1,388 |
| **Cash generated from operations** | | **550** | 597 |
| Finance costs paid | | **(55)** | (84) |
| Income taxes paid | | **(31)** | (44) |
| **Net cash inflow from operating activities** | | **464** | 469 |
| **Investing activities** | | | |
| Payments to acquire trade and certain assets under business combination | | **(12)** | (144) |
| Purchase of intangibles | | **(512)** | – |
| Purchase of property, plant and equipment | | **(165)** | (73) |
| Finance revenues received | | **89** | 86 |
| **Net cash outflow from investing activities** | | **(600)** | (131) |
| **Financing activities** | | | |
| Repayments of trade facility | | **(900)** | (1,800) |
| Dividends paid to equity shareholders | | **(345)** | (472) |
| Dividends paid to non-controlling interest | | **(25)** | (95) |
| **Net cash outflow from financing activities** | | **(1,270)** | (2,367) |
| **Decrease in cash and cash equivalents** | | **(1,406)** | (2,029) |
| Cash and cash equivalents at the beginning of the year | | **11,895** | 13,924 |
| **Cash and cash equivalents at the end of the year** | **15** | **10,489** | 11,895 |

The notes on pages 30 to 62 form an integral part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Loss before tax for the year** | | **(4,072)** | (1,862) |
| | | | |
| ***Adjustments to reconcile loss for the year to net cash (outflow)/inflow from operating activities*** | | | |
| Change in trade and other receivables (net of impairment of amounts owed by group undertakings) | | **35** | 2,302 |
| Change in trade and other payables | | **(1,218)** | – |
| Cash dividend received | | **(375)** | – |
| Impairment of investments | **13** | **4,382** | 32 |
| **Net cash (outflow)/inflow from operating activities** | | **(1,248)** | 472 |
| | | | |
| **Investing activities** | | | |
| Dividend received in specie | | **2,008** | – |
| Cash dividends received | | **375** | – |
| Investments transferred from subsidiary undertakings | | **(790)** | – |
| **Net cash inflow from investing activities** | | **1,593** | – |
| | | | |
| **Financing activities** | | | |
| Dividends paid to equity shareholders | | **(345)** | (472) |
| **Net cash outflow from financing activities** | | **(345)** | (472) |
| **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 30 to 62 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 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 2012 were authorised for issue by the board of directors on 20 March 2013 and the statements of financial position were signed on the Board's behalf by Richard Last 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 Alternative Investment Market operated by the London Stock Exchange.

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 2012. 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 2012

The following changes in financial reporting and accounting standards have come into effect in 2012:

- **IAS 1 Presentation of Financial Statements – Amendments to the presentation of items of other comprehensive income**
  The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. They also preserve the existing option to present the profit or loss and other comprehensive income in two statements.

- **IAS 12 Deferred Tax – Amendment to the treatment of the recovery of underlying assets**
  The amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment properties acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measures these assets applying the fair value model.

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 2012 (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;
- measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets – Note 11;
- measurement of potential clawbacks and complaints by customers, and the amounts thereof recoverable from advisers – see below and Notes 14 and 17; and
- measurement of other provisions – see below and Note 17.

**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 per cent. 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**

Certain aspects of the historical trading of regulated subsidiaries came to light in 2011 following rationalisation of the Group's regulated entities and became the subject of review. As a consequence, a provision in respect of potential consumer redress payments arising from historical trading was established based on the directors' best estimate of the expected value of such potential payments and the adequacy of such provisioning is reviewed regularly while the circumstances remain extant.

**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.

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 18 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 £10.5 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 The Falcon Group Limited ("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, notwithstanding the undertakings given to the FSA as detailed in the Chairman's Statement.

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').

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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

From 1 January 2013, initial and recurring commission arising from new business placed on behalf of customers will be replaced by customer agreed charging (for both initial and recurring charges) on all products with the exception of mortgage and protection products, as required by the Retail Distribution Review which became effective from that date. The accounting policies set out for commissions receivable will apply equally to customer agreed charges for relevant products from that date.

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 per cent. of the combined revenue (internal and external) of all operating segments, if their reported profit or loss is equal to or exceeds 10 per cent. 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 per cent. 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 per cent. 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 and impairment charges ("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 Statement of Financial Position 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 Consolidated 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 Consolidated 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 2012 (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 — 3-5 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 Consolidated 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 Consolidated 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 37 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 Consolidated 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 2012 (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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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.

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 Consolidated 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 Consolidated 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

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 Consolidated 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 Consolidated 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 |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | 1 January 2013 |
| IAS 27 | Separate Financial Statements | 1 January 2013 |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |

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 2013 or later periods, but the Group has not early adopted them:

| International Accounting Standards (IAS/IFRS) | | Effective date |
|---|---|---|
| IAS 1 | Presentation of Items of Other Comprehensive Income | 1 July 2012 |

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 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 EBITDA.

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

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

Segment information is as follows:

| Year ended 31 December 2012 | National £'000 | Network £'000 | Specialist Services £'000 | Other segments £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Total revenues** | 15,969 | 53,474 | 4,165 | – | 73,608 |
| **Less inter-segment revenues** | – | (18,563) | – | – | (18,563) |
| **External revenues** | 15,969 | 34,911 | 4,165 | – | 55,045 |
| **Cost of sales and other operating expenses** | (13,209) | (34,285) | (3,680) | (2,362) | (53,536) |
| **Earnings before interest, tax, depreciation and amortisation** | 2,760 | 626 | 485 | (2,362) | 1,509 |
| **Non-recurring operating expenses** | | | | | (1,401) |
| **Impairment charge on intangible assets** | | | | | (3,909) |
| **Depreciation and amortisation** | | | | | (813) |
| **Operating loss** | | | | | (4,614) |
| **Finance revenues** | | | | | 87 |
| **Finance costs** | | | | | (54) |
| **Loss for the year** | | | | | (4,581) |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

| 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 before taxation | | | | | (2,657) |

Segment assets and liabilities are as follows:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| **Segment assets** | | |
| National | **3,052** | 3,171 |
| Network | **27,782** | 28,926 |
| Specialist Services | **5,385** | 3,625 |
| Other segments and unallocated | **9,582** | 11,877 |
| **Total assets including inter-segment** | **45,801** | 47,599 |
| Inter-segment assets | **(19,808)** | (17,654) |
| **Total assets per financial statements** | **25,993** | 29,945 |
| **Segment liabilities** | | |
| National | **2,407** | 3,308 |
| Network | **22,250** | 19,548 |
| Specialist Services | **3,042** | 1,768 |
| Other segments and unallocated | **10,918** | 11,963 |
| **Total liabilities including inter-segment** | **38,617** | 36,587 |
| Inter-segment liabilities | **(19,808)** | (17,654) |
| **Total liabilities per financial statements** | **18,809** | 18,933 |

## 4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

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

| | **2012**<br>**£'000** | 2011<br>£'000 |
|---|---|---|
| Wages and salaries – advisers | **1,270** | 1,388 |
| Wages and salaries – other staff | **4,850** | 5,096 |
| Share-based payment | **32** | 32 |
| Social security costs | **656** | 745 |
| Other pension costs | **148** | 149 |
| | **6,956** | 7,410 |

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

| | **Number** | Number |
|---|---|---|
| Executive directors | **4** | 5 |
| Financial advisers | **22** | 23 |
| Administration staff | **135** | 145 |
| | **161** | 173 |

**Directors**

| | **2012**<br>**£'000** | 2011<br>£'000 |
|---|---|---|
| Base remuneration (including bonus) | **734** | 1,074 |
| Company contributions to money purchase pension schemes | **–** | 13 |
| Compensation for loss of office | **232** | 232 |
| | **966** | 1,319 |

**Highest paid director**

| | **2012**<br>**£'000** | 2011<br>£'000 |
|---|---|---|
| Base remuneration (including bonus) | **228** | 272 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

## 5. GROUP OPERATING LOSS

The operating loss of the Group is stated after charging:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment – owned | **96** | 127 |
| Amortisation of intangible assets | **717** | 768 |
| Leasehold property – lease payments | **360** | 464 |
| Hire of equipment under operating leases | **60** | 44 |
| Non-recurring operating expenses (see below) | **1,401** | 3,365 |

**Auditor's remuneration**

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

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Audit of the financial statements | **57** | 57 |
| Other fees to auditor: | | |
| Local statutory audits for subsidiaries | **63** | 63 |
| Other fees to auditor – taxation services | **24** | 19 |
| Other fees to auditor – regulatory services | **6** | 6 |
| Other services | **34** | 8 |
| | **184** | 153 |

**Non-recurring operating expenses**

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Professional advisory and consultancy costs in relation to RDR preparation and other assistance in meeting regulatory change | **883** | – |
| Costs arising as a result of AIM de-listing process and consequential board changes | **314** | – |
| Closure costs and other potential liabilities incurred in respect of historic trading of subsidiary companies | **–** | 2,738 |
| Re-organisation costs on restructuring of business segments | **204** | 627 |
| | **1,401** | 3,365 |

## 6. FINANCE REVENUE AND EXPENSE

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Revenue – bank interest earned on the Group's bank deposits | **87** | 86 |
| | | |
| Expense – finance expense on short-term funding | **(48)** | (51) |
| Expense – interest on trade finance facility | **(6)** | (33) |
| **Total expense** | **(54)** | (84) |

## 7. TAXATION

### (a) Analysis of credit in year

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax charge at 24.5% (2011: 26.5%) | **13** | 29 |
| Deferred tax credit | **(1,075)** | (131) |
| | **(1,062)** | (102) |
| Prior year corporation tax credit | **–** | (11) |
| Prior year deferred tax credit | **(22)** | (138) |
| **Tax credit on loss on ordinary activities** | **(1,084)** | (251) |

### (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:

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(4,581)** | (2,657) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%) | **(1,122)** | (704) |
| Effects of: | | |
| Share-based payment charge not deductible for tax purposes | **8** | 8 |
| Expenses not deductible for tax purposes | **32** | 18 |
| Capital allowances in excess of depreciation for the year | **(6)** | (10) |
| Other timing and permanent differences | **(403)** | (69) |
| Brought forward tax losses utilised | **(72)** | (147) |
| Current year losses not relieved | **501** | 803 |
| Prior year credits | **(22)** | (150) |
| **Tax credit for year** | **(1,084)** | (251) |

No tax arose on the other comprehensive income during the year (2011: £Nil).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

**(c) Deferred tax – Group**

The deferred tax balances evaluated at 23% (2011: 25%) can be analysed as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Provided £'000** | **Unprovided £'000** | Provided £'000 | Unprovided £'000 |
| On fair value of intangible assets arising on business combination | **–** | **–** | 1,097 | – |
| Difference between accumulated depreciation and capital allowances | **–** | **(50)** | – | (61) |
| Other timing differences | **–** | **(6)** | – | (75) |
| Trading losses | **–** | **(2,206)** | – | (2,344) |
| **Deferred tax liability/(asset)** | **–** | **(2,262)** | 1,097 | (2,480) |

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

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Provision at 1 January | **1,097** | 1,366 |
| Credit to Consolidated Statement of Comprehensive Income during the year | **(1,097)** | (269) |
| **Provision at 31 December** | **–** | 1,097 |

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).

## 8. (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of the loss per ordinary share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year of 127,700,298 (2011: 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 and loss per share used in the calculations are set out below:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Earnings £'000** | **Per share amount Pence** | Earnings £'000 | Per share amount Pence |
| **Basic loss per share** | | | | |
| The basic loss per share can be analysed as follows: | | | | |
| On EBITDA* | **1,509** | **1.18p** | 1,601 | 1.25p |
| **Effects of:** | | | | |
| Non-recurring expense | **(1,401)** | **(1.10p)** | (3,365) | (2.64p) |
| Impairment of intangible assets | **(3,909)** | **(3.06p)** | – | – |
| Depreciation and amortisation | **(813)** | **(0.64p)** | (895) | (0.70p) |
| Net finance revenue | **33** | **0.03p** | 2 | – |
| Tax credit | **1,084** | **0.84p** | 251 | 0.20p |
| Non-controlling interest | **(19)** | **(0.01p)** | (38) | (0.03p) |
| **Loss attributable to ordinary shareholders** | **(3,516)** | **(2.76p)** | (2,444) | (1.92p) |
| **Dilutive effect** | | | | |
| Options | | **–** | | – |
| **Diluted loss per share** | **(3,516)** | **(2.76p)** | (2,444) | (1.92p) |

There are 8,019,615 options (2011: 8,092,189) 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 2012 (continued)

## 9. DIVIDENDS PAID AND PROPOSED

**Paid:**

| | **2012** **£'000** | 2011 £'000 |
|---|---|---|
| 2011 Final dividend at 0.27 pence per share | **345** | – |
| 2011 Interim dividend at 0.13 pence per share | – | 166 |
| 2010 Final dividend at 0.24 pence per share | – | 306 |
| | **345** | 472 |

The directors do not recommend the payment of a dividend for 2012.

## 10. LOSS 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 £4,072,000, comprising dividends receivable, provisions against the carrying value of investments in subsidiaries and amounts due from subsidiary undertakings, none of which were dealt with in the Group result.

In 2011, 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.

## 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 2011 | 11,489 | 350 | 1,183 | 9,516 | 22,538 |
| Acquisitions/disposals | – | – | – | – | – |
| At 31 December 2011 | 11,489 | 350 | 1,183 | 9,516 | 22,538 |
| Capitalised development costs | – | 512 | – | – | 512 |
| **At 31 December 2012** | **11,489** | **862** | **1,183** | **9,516** | **23,050** |
| **Amortisation** | | | | | |
| At 1 January 2011 | 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 |
| Charge for the year | – | 14 | 131 | 572 | 717 |
| Impairment charge | – | – | – | 3,909 | 3,909 |
| **At 31 December 2012** | **6,549** | **345** | **756** | **9,054** | **16,704** |
| **Net book amount** | | | | | |
| **At 31 December 2012** | **4,940** | **517** | **427** | **462** | **6,346** |
| At 31 December 2011 | 4,940 | 19 | 558 | 4,943 | 10,460 |

The value of goodwill comprises £1,315,000 allocated to the national segment, and £3,625,000 to the specialist services segment. The value of goodwill allocated to the network segment (£5,738,000) was fully amortised or impaired as at 31 December 2011 and 2012.

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 2013 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 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 11.51 per cent. in 2013, increasing with the impact of lower corporation tax rates to 11.85 per cent. by 2015 and for subsequent years, all of which equate 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 success of the Group's recruitment plans as part of its LFA 500 project;
- the assumed rate of long-term growth in cashflows; and
- the discount rate applied to the estimated future cashflows.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

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 business risk profile of the three CGUs and accordingly the same discount rate has been applied to the estimated future cash flows of each CGU.

The impairment review undertaken as at 31 December 2012 indicated significant surpluses over the net book value of the goodwill and intangible assets in respect of the national and specialist services CGUs, but a deficit in respect of the network CGU. Accordingly an impairment charge of £3,909,000 (2011: £Nil) is required being the unamortised net book value of the network CGU intangible assets as at 31 December 2012 and this has been charged to the Consolidated Statement of Comprehensive Income in 2012.

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:

| | **National**<br>**£'000** | **Specialist Services**<br>**£'000** |
|---|---|---|
| A 1% increase in the pre-tax discount rate applied to the estimated future cash flows | (2,741) | (581) |
| A 1% decrease in the pre-tax discount rate applied to the estimated future cash flows | 3,217 | 681 |
| A 0.5% reduction in growth rate assumed from 2015 onwards | (1,446) | (304) |
| A 0.5% increase in the growth rate assumed from 2015 onwards | 1,596 | 335 |

No sensitivities have been included in respect of the network CGU due to the impairment charge made during the year. 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.

None of the above sensitivities would, in isolation, require any additional impairment charge to be made.

## 12. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Leasehold improvements £'000 | Office & computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2011 | 170 | 1,794 | 1,964 |
| Additions at cost | – | 73 | 73 |
| Disposals | – | (2) | (2) |
| At 31 December 2011 | 170 | 1,865 | 2,035 |
| Additions at cost | – | 165 | 165 |
| Disposals | – | (300) | (300) |
| **At 31 December 2012** | **170** | **1,730** | **1,900** |
| **Depreciation** | | | |
| At 1 January 2011 | 158 | 1,604 | 1,762 |
| Provided in the year | 12 | 115 | 127 |
| Disposals | – | – | – |
| At 31 December 2011 | 170 | 1,719 | 1,889 |
| Provided in the year | – | 96 | 96 |
| Disposals | – | (300) | (300) |
| **At 31 December 2012** | **170** | **1,515** | **1,685** |
| **Net book amount** | | | |
| **At 31 December 2012** | **–** | **215** | **215** |
| Net book amount | | | |
| At 31 December 2011 | – | 146 | 146 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

## 13. INVESTMENTS

**The Group – available-for-sale investment**

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Fair value of listed investment at 1 January | **128** | 135 |
| Increase/(decrease) in fair value in period to 31 December taken to equity | **7** | (7) |
| Fair value at 31 December | **135** | 128 |

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 2012 or 2011.

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**

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| **Cost at 1 January** | **20,660** | 19,410 |
| Equity contribution to subsidiary undertaking in respect of share-based payments pursuant to IFRIC 8 | **32** | 32 |
| Transferred from subsidiary undertaking | **790** | 1,218 |
| Dividend in specie from pre-acquisition reserves of subsidiary undertaking | **(2,008)** | – |
| **Cost at 31 December** | **19,474** | 20,660 |
| **Provision for impairment at 1 January** | **(11,726)** | (11,694) |
| Provisions for impairment made in the year | **(4,382)** | (32) |
| **Provision for impairment at 31 December** | **(16,108)** | (11,726) |
| **Net book value** | **3,366** | 8,934 |

**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 | Provision of regulatory authorisation and business services | 100% |
| Lighthouse Financial Advice 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 | 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 | Provision of independent financial advice | 50.1% |

All interests in the subsidiaries above are held directly by 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).

In the latter part of 2011 and during early 2012, Financial Services Advice and Support Limited transferred its trade and its advisers to Lighthouse Advisory Services Limited and has effectively ceased its regulated activities as at 31 December 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.

Sumus Limited, a former subsidiary undertaking and intermediate holding company, was dissolved during the year.

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 2012 by £1,570,000 and £49,000 respectively. The Falcon Group Limited, which had a deficit on reserves of £260,000 at 31 December 2012, no longer has any regulated activity.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

## 14. TRADE AND OTHER RECEIVABLES

| | Group 2012 £'000 | Company 2012 £'000 | Group 2011 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| Trade receivables | **3,187** | **–** | 2,667 | – |
| Amounts owed by group undertakings | **–** | **2,073** | – | 2,108 |
| Other receivables | **4,112** | **–** | 3,295 | – |
| Prepayments and accrued income | **1,504** | **–** | 1,354 | – |
| Corporation tax recoverable | **5** | **–** | – | – |
| | **8,808** | **2,073** | 7,316 | 2,108 |

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 17).

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

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| At the beginning of the year | **674** | 578 |
| Charged to the Consolidated Statement of Comprehensive Income | **219** | 226 |
| Utilised during the year | **(111)** | (130) |
| At the end of the year | **782** | 674 |

Amounts owed by group undertakings in the Company's Statement of Financial Position are stated net of an impairment provision of £7,086,000 (2011: £7,024,000).

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 |
| **2012** | **3,187** | **727** | **1,429** | **556** | **389** | **1** | **85** |
| 2011 | 2,667 | 865 | 1,024 | 302 | 303 | 13 | 160 |

## 15. CASH AND SHORT-TERM DEPOSITS

**Group**

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Short-term deposits | **10,436** | 11,453 |
| Cash at bank and in hand | **53** | 442 |
| | **10,489** | 11,895 |

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 £10,489,000 (2011: £11,895,000).

## 16. TRADE AND OTHER PAYABLES

**Current:**

| | **Group 2012 £'000** | **Company 2012 £'000** | Group 2011 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| Trade payables | **8,263** | **–** | 6,389 | – |
| Amounts owed to group undertakings | **–** | **–** | – | 1,218 |
| Other taxation and social security | **313** | **–** | 348 | – |
| Other payables | **41** | **–** | 38 | – |
| Deferred consideration and transaction costs | **–** | **–** | 12 | – |
| Accruals and deferred income | **2,131** | **–** | 1,971 | – |
| Corporation tax | **–** | **–** | 13 | – |
| Other financial liabilities – trade facility (secured) | **–** | **–** | 900 | – |
| | **10,748** | **–** | 9,671 | 1,218 |

Included within other payables is an amount of £24,000 (2011: £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.

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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

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

| | **Group 2012 £'000** | **Company 2012 £'000** | Group 2011 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| Future minimum payments due: | | | | |
| Not later than one year | **349** | **–** | 396 | – |
| After one year but not more than five years | **557** | **–** | 734 | – |
| In more than five years | **–** | **–** | 210 | – |
| | **906** | **–** | 1,340 | – |

## 17. PROVISIONS

**Group**

| | **Provision for clawback of indemnity commission £'000** | **Complaints provision £'000** | **Other provisions £'000** | **Total £'000** |
|---|---|---|---|---|
| At 1 January 2012 | | | | |
| Current | 1,136 | 1,947 | 2,742 | 5,825 |
| Non-current | 1,462 | 878 | – | 2,340 |
| | 2,598 | 2,825 | 2,742 | 8,165 |
| Charged to the Consolidated Statement of Comprehensive Income | 1,416 | 2,645 | 271 | 4,332 |
| Utilised during the year | (1,651) | (1,769) | (1,016) | (4,436) |
| **At 31 December 2012** | **2,363** | **3,701** | **1,997** | **8,061** |
| Analysed as: | | | | |
| Current | **1,019** | **2,983** | **1,783** | **5,785** |
| Non-current | **1,344** | **718** | **214** | **2,276** |
| | **2,363** | **3,701** | **1,997** | **8,061** |

**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 2012. The amount represents the gross obligation and, where these amounts can be recovered from advisers, an asset is recognised. At 31 December 2012, the gross amount recognised was £1,581,000 (2011: £1,700,000). 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 2012, the amount recognised within trade and other debtors was £3,272,000 (2011: £2,459,000).

**Other provisions**

Other provisions include £1,714,000 (2011: £2,642,000) in respect of the directors' best estimates of the expected value in respect of potential commercial liabilities arising from the historic trading of regulated subsidiary undertakings, along with £214,000 (2011: £Nil) for estimated dilapidations that may arise at the expiry of the Group's property leases and £69,000 (2011: £100,000) in respect of other commercial obligations.

**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 Statement of Financial Position.

## 18. 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 14.

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 counter-party 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.

With regard to finance revenue the Group had significant cash balances throughout the year and as at 31 December 2012. Cash at bank earns interest at floating rates based primarily on overnight or seven day 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 2012 (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 % | Effect on profit before tax £'000 | Effect on equity £'000 |
|---|---|---|---|
| **For the 12 months ended 31 December 2012** | **+1%** | **85** | **85** |
| | **-1%** | **(54)** | **(54)** |
| For the 12 months ended 31 December 2011 | +1% | 95 | 95 |
| | -1% | (55) | (55) |

**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 2012 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 2012** | | | | | | |
| **Trade and other payables** | **7,957** | **234** | **72** | **–** | **–** | **8,263** |
| **Other financial liabilities** | **1,200** | **446** | **839** | **–** | **–** | **2,485** |
| | **9,157** | **680** | **911** | **–** | **–** | **10,748** |
| 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 |

**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.

**Borrowing facilities**

Neither the Company nor the Group has any undrawn committed borrowing facilities available at 31 December 2012 (2011: £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 2012 and 2011 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.

## 19. SHARE CAPITAL

| | **2012** | | 2011 | |
|---|---|---|---|---|
| **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 and 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 2012 (continued)

**Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2012**

| Number of share options at 31 December 2011 | 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 2012 | 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 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 for advisers the following options were held at 31 December 2012**

| Number of share options at 31 December 2011 | 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 2012 | Exercise price (Pence) | Exercise period |
|---|---|---|---|---|---|---|
| **272,638** | **–** | **–** | **(2,700)** | **269,938** | **1.0** | **30/09/04 and 30/12/14** |
| **13,769** | **–** | **–** | **–** | **13,769** | **1.0** | **17/08/04 and 16/08/14** |
| **286,407** | **–** | **–** | **(2,700)** | **283,707** | | |

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 Approved Share Option Scheme the following options were held at 31 December 2012**

| Number of share options at 31 December 2011 | 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 2012 | 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 | – | – | (10,256) | 10,256 | 19.0 | 13/12/07 and 12/12/14 |
| 243,242 | – | – | (16,216) | 227,026 | 18.5 | 25/04/09 and 24/04/16 |
| 160,254 | – | – | – | 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 | – | – | (13,000) | 69,500 | 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 | – | – | (49,692) | 407,752 | 21.5 | 12/05/11 and 11/05/18 |
| 1,870,234 | – | – | (89,164) | 1,781,070 | | |

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 3/02/14 |
| 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 | | |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

## 20. 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 of the option being 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.

| | **2012 Number** | **2012 WAEP (pence)** | 2011 Number | 2011 WAEP (pence) |
|---|---|---|---|---|
| Outstanding at 1 January | **8,370,531** | **22.47** | 8,380,789 | 22.47 |
| Granted during the year | **–** | **–** | – | – |
| Forfeited during the year | **(91,864)** | **19.88** | (10,258) | 25.00 |
| Outstanding at 31 December | **8,278,667** | **22.50** | 8,370,531 | 22.47 |
| Exercisable 31 December | **8,278,667** | **22.50** | 8,370,531 | 22.47 |

For the share options outstanding at 31 December 2012, the weighted average remaining contractual life is 4.57 years (2011: 5.57 years). The range of exercise prices for options outstanding at 31 December 2012 was 1 pence – 32.5 pence (2011: 1 pence to 32.5 pence).

(c) **Expense charged to the Consolidated Statement of Comprehensive Income**
The total expense recognised for the year arising from equity compensation plans was as follows:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| Fair value of options | **32** | 32 |

(d) **Fair value of options granted during the year**
No options were granted in either 2012 or 2011.

## 21. 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.

## 22. COMMITMENTS AND CONTINGENT LIABILITIES – CAPITAL COMMITMENTS

Neither the Group or the Company had any capital commitments as at 31 December 2012 (2011: £Nil).

## 23. POST BALANCE SHEET EVENT

In March 2013 the Company issued £820,000 Unsecured Loan Notes to two product providers in order to partly fund the investment required by the LFA 500 project, which is aimed at more than doubling the number of advisers within that division by 31 December 2015.

The loan notes are unsecured and bear interest at 8 per cent. per annum, rolled up until the notes are redeemed in 2016. They also carry a right to a premium on original amount invested of 50 per cent. should Lighthouse Financial Advice Limited ("LFA") meet targets for gross revenues and EBITDA for the year ending 31 December 2015, and adviser numbers as at that date in excess of those contained in the business plan for that division. Such a premium, if payable, would be self-financing.

## Principal areas of activity

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

**Lighthouse Financial Advice (LFA):**

- National advisory business servicing affinity partners through self-employed advisers.
- Advisers use the Lighthouse Financial Advice brand.
- Higher margins and more support/direction from Group management.
- Nearly 12,000 client appointments booked for advisers in 2012.

**Lighthouse Advisory Services (LASER):**

- Network offering support services to 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 income collection and processing.

**Specialist Services:**

- Employed advisers under LighthouseCarrwood and Lighthouse Group Employee Benefits brands.
- Specialist advice on investments, 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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