REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016



Middle Britain's preferred financial advisers.

Auto-enrolment made easy.

Luceo investment funds: made for everyone, managed by experts.

Independent mortgage advice.

Financial peace of mind.




LIGHTHOUSE**GROUP**

Highlights

- **EBITDA* rose 37 per cent, from £1.6 million to £2.2 million.**
- **Profit before tax up 119 per cent, to £1.9 million (2015: £0.9 million).**
- **Average revenue per adviser increased by 6 per cent. to £99,000 (2015: £93,000).**
- **Recurring revenue £21.9 million, or circa 50 per cent. of total revenue generated from customers (2015: £22.1 million and 48 per cent.).**
- **Gross margins broadly unchanged at 30.2 per cent. (2015: 30.3 per cent.).**
- **Net cash up 3 per cent. at £8.1 million (2015: £7.9 million).**
- **Basic earnings per share rose by 204 per cent. to 2.07p per ordinary share (2015: 0.68p).**
- **Adjusted earnings per share** up 120 per cent. to 1.19p per ordinary share (2015: 0.54p).**

* Earnings before interest, tax, depreciation and amortisation.
** Adjusted earnings per share is calculated after excluding the deferred tax credit in 2016 of £750,000 and applying a standard tax charge of 20 per cent. (2015: 20.25 per cent.).

The increases set out above are in comparison with the year ended 31 December 2015 or as at that date.

Affinity-sourced business is a highly significant contributor to Group performance, contributing £1.1 million to Group EBITDA in 2016. **Contracted relationships and revenues have grown consistently in the past four years, rising from £4.2 million in 2013 to £6.8 million in 2016**, an annual compound growth rate of 18 per cent, with **contracted affinity partners rising from 12 to 19 in the same period**. Traction in this important area of the Group's target market place – "Middle Britain" – continues to grow and the Group is now seen as the **leading provider of holistic financial advice in the affinity arena.**

In September 2016 Lighthouse Group launched **Luceo Asset Management Limited, a wholly-owned subsidiary** that currently operates three actively managed, multi-manager fund of funds. More will be added during 2017. Luceo Funds have been designed by the Group, in conjunction with Octopus Investments, the Investment Manager appointed to run the Luceo Funds, to provide **investments with risk profiles that exactly match those agreed with clients when advising them**. The Luceo Funds have been well received by the advisers, with **£8 million having been invested** to date.

The Group's Wealth Management division continued to progress during 2016, providing **highly skilled advice to higher net worth clients**. Average annualised gross revenue production across the employed advisers working with the Group's accountancy connections within LighthouseCarrwood Limited increased by 10 per cent. to £215,000 from £195,000 in 2015, generated from advice provided across all product areas.

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DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

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Kenneth Paterson	Compliance and Risk Director
Fay Williams	Non-Executive Director
Alex Scott-Barrett	Non-Executive Director

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STRATEGIC REPORT
CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to report the Group's results for the year ended 31 December 2016, which are set out below and in the Consolidated Statement of Comprehensive Income in the Annual Report. The results show a continuing strong financial performance by the Group, with EBITDA* increasing by 37 per cent. to £2.2 million in 2016 compared to £1.6 million in 2015 on total revenues of £47.9 million (2015: £48.9 million). Profit before taxation for the year amounted to £1.9 million compared to £0.9 million in 2015 – an increase of 119 per cent. Adjusted basic earnings per share (after a standard tax charge) increased by 120 per cent. to 1.19 pence per ordinary share (2015: 0.54 pence per ordinary share).

TRADING HIGHLIGHTS

	2016	2015
Revenue	**£47.9m**	£48.9m
Gross profit	**£14.5m**	£14.8m
Operating costs	**£12.3m**	£13.2m
EBITDA*	**£2.2m**	£1.6m
Depreciation and amortisation	**£0.3m**	£0.5m
Operating profit	**£1.9m**	£1.1m
Net finance cost	**–**	£0.2m
Profit before taxation	**£1.9m**	£0.9m
Taxation credit	**£0.7m**	–
Profit after taxation being profit for the financial year	**£2.6m**	£0.9m
Earnings per share:		
Basic	**2.07p**	0.68p
Adjusted basic reflecting standard tax charge**	**1.19p**	0.54p
Fully diluted	**1.97p**	0.68p
Adjusted fully diluted reflecting standard tax charge**	**1.13p**	0.54p

* Earnings before interest, tax, depreciation and amortisation.

** Calculated after applying standard tax charge of 20% (2015: 20.25%).

FINANCIAL PERFORMANCE

Group revenue for 2016 was £1 million lower than in 2015, this small reduction being due to the focus on more cost-effective advice delivery and a £2.1 million reduction in trail/renewal based revenue, largely as a result of the removal of such payments for platform-based assets from April 2016 under the "sunset clause" arrangements introduced by the Financial Conduct Authority ("FCA"). Notwithstanding this, recurring revenues reached c50 per cent. of total revenue generated from customers for the first time at £21.9 million (2015: £22.1 million or 48 per cent.), underlining the increasing quality of the Group's earnings. Average revenue production per adviser also increased by £6,000 (6 per cent.) to £99,000 in 2016 (2015: £93,000); this has increased by 24 per cent. since 1 January 2013.

Despite the impact of the "sunset clause" referred to above (net impact on gross margin £1.5 million), which was largely offset by a change in the mix of revenue generation in favour of the higher margin national affinity and wealth management segments and the release of old unallocated accruals of c£859,000, gross margins remained broadly unchanged in 2016 at 30.2 per cent. (2015: 30.3 per cent.). Operating costs reduced by £0.9 million or 7 per cent. from £13.2 million in 2015 to £12.3 million in 2016, despite further investment of £684,000 in new and enhanced business streams, including the launch of the Luceo Asset Management proposition in September 2016. As a result of the above, EBITDA increased by £0.6 million or 37 per cent. to £2.2 million in 2016, from £1.6 million in 2015.

The Group's profit before taxation increased by £1.03 million or 119 per cent. to £1.9 million (2015: £0.9 million). Group profit after taxation amounted to £2.6 million (2015: £0.9 million) after a credit to taxation of £750,000 (2015: £Nil tax charge/credit) representing the recognition of a deferred tax asset in respect of unutilised tax losses carried forward at 31 December 2016 where future utilisation is considered to be probable. Basic earnings per share rose by 204 per cent. to 2.07 pence per ordinary share (2015: 0.68 pence per ordinary share) and adjusted basic earnings share, calculated after a standard tax charge of 20 per cent. (2015: 20.25%), increased by 120 per cent. to 1.19 pence per ordinary share (2015: 0.54 pence per ordinary share).

AFFINITY AND OTHER BUSINESS RELATIONSHIPS

The Group continues to develop deep and long-lasting commercial relationships with its affinity partners and now has contractual relationships with 19 affinity groups to provide financial advice to their aggregate membership which exceeds 6 million individuals. The Group is believed to be the largest supplier of advice to the affinity market and revenues from this activity continue to increase, reaching £6.8 million in 2016 (2015: £6.6 million). This is after absorbing a £730,000 reduction in platform-based trail revenue as a result of the "sunset clause" arrangement introduced by the FCA, with new business revenues rising by £405,000 or 16 per cent. to £2.9 million (2015: £2.5 million).

Affinity-sourced business is a highly significant contributor to Group performance, contributing £1.1 million to Group EBITDA in 2016. Contracted relationships and revenues have grown consistently in the past four years, rising from £4.2 million in 2013 to £6.8 million in 2016, an annual compound growth rate of 18 per cent, with contracted affinity partners rising from 12 to 19 in the same period.

In 2016 the Group organised in excess of 1,000 events which generated nearly 15,000 face-to-face meetings with potential customers for advisers. These numbers are expected to grow as the Group increases its reach into the affinity market and continues to introduce innovative and appropriate financial solutions that should appeal to the "Middle Britain" constituency served therein.

The affinity business is largely based within the Group's Lighthouse Financial Advice ("LFA") division, consisting of skilled financial advisers advising on the Group's Researched Solutions range (including Luceo Asset Management), which contributed £2.7 million to EBITDA (2015: £3 million). This was £300,000 lower than in 2015 purely as a result of the "sunset clause" which reduced revenue in this division by £1.2 million.

The Group's Wealth Management division continued to progress during 2016, providing highly skilled advice to higher net worth clients through the LighthouseCarrwood ("Carrwood") and LighthouseWealth ("Wealth") businesses.

The Group has focused on reshaping Lighthouse Advisory Services, the division comprising the Group's historic base of experienced advisers who run their own businesses and serve their local communities, in recent years, concentrating on quality of advice and use of technology to facilitate the advice process. This focus is leading to a more streamlined operation that should contribute positively in future years.

Lighthouse Workplace Solutions, encompassing the Group's proprietary Lighthouse Pensions Trust ("LPT") and Lighthouse Life Trust aimed at the auto-enrolment market for small and medium-sized entities ("SMEs"), has progressed further during the year. Initial penetration of the SME market has been slower than we had expected, reflecting, in part, the natural reluctance of small employers to pay for a fully advised service to enable them to meet responsibilities imposed on them by Government. With up to 1 million employers still obliged to address their auto-enrolment obligations in 2017 and 2018, the Group remains committed to this development.

"Affinity-sourced business is a highly significant contributor to Group performance, contributing £1.1 million to Group EBITDA in 2016. Contracted relationships and revenues have grown consistently in the past four years, rising from £4.2 million in 2013 to £6.8 million in 2016, an annual compound growth rate of 18 per cent, with contracted affinity partners rising from 12 to 19 in the same period."

STRATEGIC REPORT
CHAIRMAN'S STATEMENT (continued)

LUCEO ASSET MANAGEMENT

As previously reported, the Group announced the launch of its newly formed subsidiary, Luceo Asset Management Limited ("Luceo") in September 2016. Luceo has been created to provide the Group's customers with access to sponsored investment solutions matched to their agreed attitude to risk. The initial three Luceo Investment Funds were launched as multi-manager, fund of fund solutions in the active asset management space, with Octopus Investments as the Investment Manager, and are ideally suited to form part of the investment portfolio for the Group's target "Middle Britain" customer.

Focused initially on the customers of LFA, who already enjoy access to the existing Lighthouse Researched Solutions range, the new funds have been well received by the advisers within that division, with c£8 million having been invested to date and the majority of LFA advisers being actively engaged in discussing the new offering with clients, having regard to advice previously provided and the relative positioning within the current tax year.

The Luceo range will be extended further during 2017 with additional active funds to be launched by the end of February and further product lines encompassing both passive/low cost offerings as well as regular income and other asset classes to be covered as the year progresses. The extension of the range and the start of a new tax year should give additional stimulus to the rate of garnering of assets under the Luceo proposition and deliver additional margin for the Group as the funds develop scale.

FINANCIAL POSITION

The Group had net cash of £8.1 million as at 31 December 2016 compared to £7.9 million at the previous year-end, an increase of 3 per cent. This provides an excellent base from which to grow and develop both its affinity business within LFA and the higher margin wealth management division, as well as supporting the development of new and existing business streams and other initiatives.

BREXIT AND REGULATORY DEVELOPMENTS

The initial uncertainty experienced by UK financial markets following the vote to leave the EU in June 2016 has subsided, with the FTSE 100 and similar indices recording all-time highs in late 2016 and early 2017. Notwithstanding this, the depreciation of sterling against the dollar and the euro will add to the inflationary pressures already building up in the UK and could adversely affect UK consumer spending and investment in the short-term.

The impact of Brexit on UK financial services markets has yet to be determined, as the UK Government has yet to serve formal notice to leave the EU under Article 50 of the Treaty on European Union, and the Group is keeping the situation under close review. With the Group's customer base domiciled principally in the UK, the Board believes the Group is well placed to deal with any issues that might emerge from Brexit in due course.

Regulation continues to develop, with HM Treasury and the FCA still to conclude definitively on and supply guidance for the Financial Advice Market Review ("FAMR"). In addition, new legislation is impending in the form of the Markets in Financial Instruments Directive ("MiFID II") and the General Data Protection Regulation, effective from 1 January 2018 and 25 May 2018 respectively, among other new legislation. Whilst it is interesting to note that FCA guidance on both FMAR and MiFID II is still awaited, the Group is reviewing its obligations in all of the above and is confident, based on information currently available, of being fully compliant by the time such legislation becomes effective.

The Group continues to take a positive approach towards assessing and dealing with new developments in the markets within which it operates, for the benefits of its customers, advisers and stakeholders.

DIVIDENDS

A final dividend of 0.18 pence per ordinary share (2015: 0.16 pence per ordinary share), an increase of 13 per cent., is recommended by the Board and, subject to approval at the forthcoming Annual General Meeting, will be payable on 5 May 2017 to shareholders on the register at close of business on 7 April 2017. The corresponding ex-dividend date is 6 April 2017. This follows the interim dividend of 0.09 pence per ordinary share (2015: 0.08 pence per ordinary share) paid in September 2016 and makes a total dividend for the year of 0.27 pence per ordinary share (2015: 0.24 pence per ordinary share).

EMPLOYEES AND BOARD

I would like to express my appreciation to all of the Group's advisers for their continuing loyalty, enthusiasm and professionalism and to my fellow directors and all of the Group's employees for their hard work and dedication during the year.

"The Group's principal operating units have recorded creditable financial performance during the year despite the adverse impact of the removal of trail income from platform-based assets in April 2016 and have well-developed plans for further growth."

STRATEGY AND PROSPECTS

The Group continues to focus on developing its own product offerings and focusing on those operations within the Group that provide higher margins, whilst seeking to improve efficiency and ease of operation across all areas of the Group. We are pleased with the launch of the Luceo Investment Fund range and the contribution made by the Group's partners in this development and look forward to this being expanded significantly over the course of 2017 and beyond.

The Group's principal operating units have recorded creditable financial performance during the year despite the adverse impact of the removal of trail income from platform-based assets in April 2016 and have well-developed plans for further growth.

With a focus on generating profitable growth from expanding affinity business, developing new and enhancing existing financial solutions for both retail and corporate customers and achieving further cost efficiency, whilst continuing to mitigate risk for the Group and its customers, the Board believes that the Group is well placed to take advantage of the opportunities available.

Richard Last
Chairman

20 February 2017

STRATEGIC REPORT
CHIEF EXECUTIVE'S REVIEW

OVERVIEW

2016 marked a milestone in the development of Lighthouse, with the launch of the Luceo Asset Management business – the Group's first entry into the asset management space. This is an exciting new development that should produce increased revenue and margin as the Luceo Fund range gains traction and is developed further.

The Group's affinity business continues to expand, with 19 contractual arrangements in place as at 31 December 2016. Total revenues from this source reached a new peak of nearly £7 million and this high-margin business contributed £1.1 million to Group EBITDA. Traction in this important area of the Group's target market place – "Middle Britain" – continues to grow and the Group is now seen as the leading provider of holistic financial advice in the affinity arena.

During the year the Group absorbed the impact of the "sunset clause", introduced by the FCA with effect from 1 April 2016 and resulting in the cessation of trail payments previously received from clients' investments held on platforms. This reduced recurring revenues and gross margin by £2.1 million and £1.5 million respectively from 2015 levels, and set against this context it is pleasing to report that recurring revenues at £21.9 million approached 50 per cent. of total revenues generated from customers for the first time in 2016 (2015: £22.1 million and 48 per cent. respectively) and gross margins remained largely unchanged at 30.2 per cent. of revenue (2015: 30.3 per cent.). This demonstrates the high regard in which clients hold the Group's services and the resilience of the Group's operating model.

"Traction in this important area of the Group's target market place – "Middle Britain" – continues to grow and the Group is now seen as the leading provider of holistic financial advice in the affinity arena."

Close attention has continued to be applied to the Group's operating cost base, with the result that administrative overheads reduced by £0.9 million to £12.3 million (2015: £13.2 million). As a result of the above, EBITDA increased by 37 per cent. to £2.2 million from £1.6 million in 2015 and pre-tax profit rose by 119 per cent. to £1.9 million from £0.9 million in 2015. This represents a highly creditable result in a year of continuing change and uncertainty, both in the financial markets and as regards the regulatory and political arenas.

The Group has also continued to invest in technology development and initiatives to enhance existing and produce new business offerings in 2016 in order to better serve its customers and take advantage of the many opportunities that exist.

Further details of 2016 trading are set out later in this review.

OPERATIONS

The Group provides financial advice through its three principal business segments, being:

- LFA, the affinity-based, self-employed national advisory division;
- Wealth management, comprising employed and highly specialist and qualified advisers within Carrwood, working through accountancy and professional connections, and Wealth, serving a similar high net worth client base through the client banks of its self-employed advisers; and
- Lighthouse Advisory Services Limited, the Group's authorised network of self-employed advisers, operating under their own brands and within their local communities but with access to the same Fairway technology and Researched Solutions product suites available elsewhere in the Group.

At 31 December 2016 the Group employed 140 staff, including employed advisers, and operated out of three principal locations, being London (plc office and base for City-based advisers), Stockport (operating base for Carrwood, including Lighthouse Workplace Solutions, compliance and IT support centre) and Woodingdean, near Brighton (base for LFA operations support and finance and adviser remuneration functions).

LUCEO ASSET MANAGEMENT

On 16 September 2016, the Group announced the launch of Luceo Asset Management Limited, a wholly-owned subsidiary that will provide in-house investment solutions under the Luceo Funds brand to the Group's core customer base. The Funds opened for business on 17 October 2016 with three actively managed, multi-manager fund of fund solutions – Luceo 4, 5 and 6 – that have been designed by the Group, in conjunction with Octopus Investments, the Investment Manager to the funds, to provide investments whose risk profiles exactly match those agreed at the time of recommendation by the customer.

Octopus Investments was selected after extensive due diligence as an award-winning and innovative investment manager with more than £6 billion under management for more than 50,000 investors. The Luceo Funds are available on a number of the leading platforms, including the Lighthouse Zurich Platform, a service exclusively available to and on terms bespoke to the Group, its advisers and clients. Again Zurich was chosen as a partner after extensive due diligence for its economic strength, long-standing reputation in the market and commitment to supporting the intermediary community. Both Octopus Investments and Zurich committed significant resource and expertise in enabling the Group to launch the Luceo Funds in accordance with the pre-agreed schedule.

"The Luceo Funds are available on a number of the leading platforms, including the Lighthouse Zurich Platform, a service exclusively available to and on terms bespoke to the Group, its advisers and clients."

Operation of the Luceo Funds is overseen by an Investment Committee made up of experienced investment professionals, with an independent chairman, ensuring that the interests of customers are always of primary concern.

The new Funds have been received favourably within the Group's adviser communities and are initially focused on the customers of LFA as part of the Lighthouse Researched Solutions range successfully deployed for the benefit of customers since January 2013. Despite being launched halfway through a tax year, when many clients will have already agreed their investment and tax strategies up to April 2017, over half of the advisers within LFA have now engaged and arranged investment within the Luceo Funds for the benefit of their clients and total funds invested in excess of £8 million as at the current date.

Further funds within the Luceo range will be developed and launched in the forthcoming months, both to widen the current active product set and also to provide solutions in other areas such as low cost/passive managed and regular income as well as in the discretionary and alternative asset class parts of the market. This, together with the arrival of the end of the current ISA season and a new tax year from 6 April 2017, should provide additional demand for the Luceo Fund range and deliver improved customer outcomes across a wider number of customers, whilst providing additional revenue and margin for the Group as the Funds move towards scale.

DIVISIONAL COMMENTARY

Lighthouse Financial Advice

LFA is the Group's national advisory business focused on providing appropriate financial advice and solutions to the market area termed "Middle Britain", and holds contractual arrangements as the preferred provider of financial advice to the members of 19 affinity groups across the UK, covering some 6 million members. In 2016 the Group has secured new contracts as the preferred provider of financial advice to the members of the University and College Union and the Fire Brigades Union, each for initial three-year periods, and FosterTalk Limited for an initial two-year period.

STRATEGIC REPORT
CHIEF EXECUTIVE'S REVIEW (continued)

In addition, the Group announced the renewal of its existing affinity contract with Parliament Hill Limited for a further two-year period in March 2016, and in February 2017 the renewal of the existing affinity contract with the Union of Shop, Allied and Distributive Workers for a further three-year period. These contract wins and renewals emphasise LFA's position as the financial adviser of choice for affinity groups and their members and the continuity of such arrangements provides an exceptional base for future development within LFA.

Revenues generated from affinity-based leads across the Group reached £6.8 million in 2016 – an increase of £0.9 million or 16 per cent. over the £6.6 million achieved in 2015 after allowing for the £730,000 reduction in trail revenues following the "sunset clause" taking effect from 1 April 2016 – with new business revenues included therein increasing by £405,000 or 16 per cent. to £2.9 million (2015: £2.5 million). After deducting adviser payaways, introducer payments and directly attributable overheads, the Group's affinity business contributed £1.1 million to Group EBITDA, underlining the importance of this reliable and expanding area of operation. This contribution is expected to increase as penetration of such relationships becomes deeper and more effective.

LFA also continues to lead the distribution of the Group's Lighthouse Workplace Solutions ("LWS") suite of financial solutions and products targeted at helping SMEs provide cost-effective and attractive workplace benefits for the benefit of their employees.

> "These contract wins and renewals emphasise LFA's position as the financial adviser of choice for affinity groups and their members and the continuity of such arrangements provides an exceptional base for future development within LFA."

Operating from modern premises near Brighton, owned by the Group under a long lease and which house a professional call centre and client service and events teams, and embracing fully the Group's Fairway technology solution and its Researched Solutions product range, LFA is well placed to take advantage of the opportunities available as a prime adviser to "Middle Britain".

In 2016, LFA contributed gross revenues of £15.7 million (2015: £16.1 million) and an EBITDA after allocation of central costs of £2.7 million (2015: £3 million), the reductions from 2015 being directly attributable to the impact of the "sunset clause" removal of historic trail on platform-based customer assets.

Wealth management

Wealth management comprises highly-skilled employed advisers within Carrwood (incorporating Lighthouse Workplace Solutions) and self-employed advisers within Wealth. Carrwood has 45 contractual arrangements with accountancy firms to provide financial advice to their clients, and the advisers within Carrwood (incorporating Lighthouse Workplace Solutions) are supported by the specialist administrative and para-planning resource located in the Group's modern premises in Stockport, within easy reach of Manchester, the principal financial centre in the North-West of England. The office is also the administrative support centre for the Group's auto-enrolment and group employee benefits business, part of Carrwood. Wealth advisers operate remotely or from the Group's head office premises in the City of London and have access to central para-planning services.

This division produced revenues of £8.4 million, a reduction of £407,000 or 5 per cent. from the £8.8 million recorded in 2015. The principal reason for the reduction was the non-recurrence of a major pension transfer review undertaken in 2015 with attributed revenues of £561,000 of which £346,000 was paid to a specialist third-party contractor who retained the related advice liability. Average annualised gross revenue production across the employed advisers working with the Group's accountancy connections within Carrwood increased by 10 per cent. to £215,000 from £195,000 in 2015, generated from advice provided across all product areas.

The Group invested a further £534,000 in the continued development of the LPT auto-enrolment offering which has been fully expensed in the 2016 results, and this resulted in the wealth management segment recording an EBITDA loss after allocation of central costs of £323,000 (2015: EBITDA profit of £256,000).

193 auto-enrolment compliant company pension schemes had been staged by 31 December 2016, with a further 54 schemes having signed up to be staged in future periods. Whilst take-up of the Group's fully advised Lighthouse Pensions Trust and associated Lighthouse Life Trust has been slower than anticipated, due in part to the reluctance of SME owners to pay for assistance in establishing pension arrangements imposed on them by central government when lower-cost, unadvised offerings are available from other sources, up to 1 million SMEs have still to stage auto-enrolment compliant pension schemes between 1 January 2017 and mid-2018. The Group remains committed to maximising the opportunity to assist SMEs to meet their obligations in this area.

The combination of highly-skilled employed and experienced self-employed advisers operating in the high-net worth marketplace provides a firm base for further growth in the wealth management sector.

Lighthouse Advisory Services ("LASER")

2016 saw revenues in the network segment, LASER, reduce marginally from £24 million to £23.8 million, with the impact of a small number of member firms becoming directly authorised or otherwise having moved out of the Group being largely offset by average annualised revenue production per adviser increasing by 7 per cent. to £107,000 from £100,000. The Group continues to focus on improving margin and on minimising risk for itself, its clients and its network advisers. The Group will continue to work with those firms which embrace the full Lighthouse Fairway technology and the innovative financial solutions provided for clients by the Lighthouse Researched Solutions and Luceo Investment Fund range to deliver better customer outcomes and a mutually beneficial relationship for the Group and its advisers in this community space.

After allocation of central costs, the network segment incurred an EBITDA of £64,000 (2015: negative EBITDA of £721,000). The improvement was as a result of debt and professional indemnity insurance recoveries and lower complaint numbers post-RDR leading to cost reductions.

Central costs not allocated to segments amounted to £221,000 (2015: £971,000).

PROFESSIONAL INDEMNITY INSURANCE ("PII")

PII cover remains an essential cost of continuing to advise clients within the UK retail financial services market, and the market for such cover in the UK remained tight during 2016, with few carriers wishing to participate in insurance arrangements (either as principals or syndicate members) and premiums as a proportion of revenues continuing at previous high levels.

Notwithstanding the difficult market conditions, the Group secured a renewal of its coverage in June 2016 for a further eighteen-month period, with the adoption of carefully risk-rated researched solutions being a key factor in achieving renewal with a 1.8% cost increase in total quantum terms and some reductions in individual case excesses.

"The combination of highly-skilled employed and experienced self-employed advisers operating in the high-net worth marketplace provides a firm base for further growth in the wealth management sector."

STRATEGIC REPORT
CHIEF EXECUTIVE'S REVIEW (continued)

REGULATION

The scale of regulation applied to the UK financial services distribution sector continues to expand with major changes introduced by UK Government and the FCA in recent years aimed at increasing savings within the UK and at providing individuals with increased choice. Definitive guidance from the FCA on the FAMR findings has still to emerge and the extent and applicability of further regulatory obligations from pending legislation such as MiFID II and the General Data Protection Regulation, which come into effect on 1 January 2018 and 25 May 2018 respectively, has yet to be finalised. The Group continues to monitor these developments closely to assess the proposed impact on, and actions necessary to comply with, the various new regulations. It also continues to engage with regulatory authorities with a view to achieving a more proportionate approach to UK regulation of retail financial services whilst continuing to recognise the need to minimise risk and provide appropriate advice to and outcomes for its customers.

REVENUE AND GROSS MARGINS

Total revenues decreased by £1 million or 2 per cent. to £47.9 million from £48.9 million in 2015, reflecting the impact of the "sunset clause" introduced by the FCA with effect from 1 April 2016 which removed £2.1 million of historic trail previously received in respect of clients' investment assets held on platforms. Despite this, recurring revenues at £21.9 million approached 50 per cent. of all revenues generated from customers (2015: £22.1 million and 48 per cent.) and average annualised revenue production per adviser increased by £6,000 or 6 per cent. to £99,000 from £93,000 in 2015. This increase and the ability to replace a substantial proportion of historic platform-based asset trail with on-going charges, which now represent 67 per cent. of all recurring revenues against 54 per cent. in 2015, represents a considerable achievement by the Group and its advisers.

Gross margins, expressed as a percentage of total revenues, decreased marginally to 30.2 per cent. from 30.3 per cent. in 2015, principally as a result of the loss of £1.5 million gross margin related to historic "sunset clause" trail, largely offset by improvements in divisional gross margin percentages and the release of historic accruals no longer required of £859,000.

OPERATING COSTS

Operating costs decreased in 2016 by £0.9 million to £12.3 million from £13.2 million in 2015. This decrease was due to lower complaint volumes, leading to lower utilisation of current professional indemnity insurance arrangements, and increased debt recoveries (an aggregate reduction of £884,000), lower sub-contract costs with the non-recurrence of £346,000 re major public sector pension review work in comparison with 2015 and reductions in staff costs of £174,000. This was partially offset by the £684,000 investment expensed during the year on the development and enhancement of new business streams such as auto-enrolment and the Luceo Asset Management Fund range launched in September 2016.

The Group continues to monitor closely its operating base and looks to minimise such costs and to recover regulatory and PII costs from advisers and/or clients wherever possible.

"This increase and the ability to replace a substantial proportion of historic platform-based asset trail with on-going charges, which now represent 67 per cent. of all recurring revenues against 54 per cent. in 2015, represents a considerable achievement by the Group and its advisers."

CARRYING VALUE OF INTANGIBLE ASSETS AND GOODWILL

As required by accounting standards, the Board has undertaken a review of the Group's intangible assets including goodwill arising from business combinations as at 31 December 2016 to identify whether any indicators of impairment existed as at that date and, in the case of those intangible assets with indefinite useful economic lives, whether the carrying values were supported by the estimated net present value of future cash flow projections from the relevant Cash Generating Units or business segments. No such impairment factors were identified and hence no additional provision for impairment has been made (2015: £Nil).

RESULTS FOR THE YEAR

The Group recorded an EBITDA for the year of £2.2 million (2015: £1.6 million).

After charging £299,000 in respect of depreciation and amortisation, a reduction of £253,000 from the £552,000 charged in 2015 as a result of certain intangible assets becoming fully amortised, and net finance costs of £16,000 (2015: £194,000, including £133,000 in respect of the unsecured loan notes redeemed in full on 31 December 2015), the Group recorded a pre-tax profit of £1.9 million (2015: £0.9 million). Post-tax profit amounted to £2.6 million (2015: £0.9 million), reflecting a credit of £750,000 arising from the recognition of a deferred tax asset for losses brought forward now considered to be recoverable in the foreseeable future (2015: £Nil).

"The Luceo Fund range, which provides improved customer outcomes as well as additional margin to the Group, will be expanded further in 2017 along with complementary offerings to be introduced in future periods."

CASH FLOW, CASH BALANCES AND TREASURY

Net year-end cash balances, after deduction of a commercial property bank mortgage (secured on the Group's long-leasehold property near Brighton), amounted to £8.1 million (2015: £7.9 million after deduction of the bank mortgage). The increase of £0.2 million was due to the £1.6 million profit retained for the year (excluding the non-cash deferred tax credit of £750,000) less working capital increases principally as a result of the settlement of historic complaints previously provided for. The bank mortgage of £0.4 million (2015: £0.4 million) was taken out in 2013 to part fund the long-leasehold interest in the Group's LFA operational premises in Woodingdean (total acquisition cost: £1.1 million) and is repayable by quarterly instalments, with the balance being subject to rollover or refinancing in October 2018.

The undertakings previously given by the Group to the FCA in respect of maintaining assets and seeking prior approval for distributions by its regulated subsidiaries remain in force at this time. After allowing for regulatory and working capital considerations the Board will continue to retain the £4 million of cash it holds in excess of regulatory capital requirements in short-dated accounts for the time being.

PROSPECTS

As noted above, the Group has continued to invest in its businesses and in new initiatives. The Luceo Fund range, which provides improved customer outcomes as well as additional margin to the Group, will be expanded further in 2017 along with complementary offerings to be introduced in future periods. This together with the on-going focus on higher margin divisions – LFA and Wealth Management – and focused development of the advisers within the network division in conjunction with the Group's Fairway technology and carefully selected Researched Solutions, leaves the Group well placed, with a solid financial position and net cash, to take advantage of opportunities.

Malcolm Streatfield
Chief Executive

20 February 2017

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of Lighthouse Group plc (the "Company" and the "Group") for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

A full review of the results for the year ended 31 December 2016 is contained within the Chairman's Statement and Chief Executive's Review set out on pages 3 to 6 and 7 to 12 respectively of the Strategic Report. EBITDA for the year amounted to £2,208,000 (2015: £1,610,000). After depreciation and amortisation of £299,000 (2015: £552,000) and net finance costs of £16,000 (2015: £192,000) the Group recorded a profit before tax of £1,893,000 (2015: £866,000) and a profit after tax (including a deferred tax credit of £750,000) of £2,643,000 (2015: £866,000).

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

An interim dividend of 0.09 pence per share (2015: 0.08 per share) or £115,000 was declared and paid during the year in respect of the financial year ended 31 December 2016 and has been recognised in the consolidated statement of changes in equity. A final dividend of 0.18 pence per share (2015: 0.16 pence per share) is proposed in respect of the year ended 31 December 2016 and will, subject to approval at the forthcoming Annual General Meeting, be paid on 5 May 2017 to shareholders on the register at the close of business on 7 April 2017. The corresponding ex-dividend date is 6 April 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Group for the year were the provision of financial advice to retail and corporate customers and regulatory authorisation to financial advisers operating from locations across the UK and the provision of investment propositions to the Group's customers through third-party investment managers.

The Group's services are delivered to the ultimate retail or corporate 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 brand. 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 wealth management operating segments; and
- Wealth management, under the LighthouseCarrwood, LighthouseWealth and Lighthouse Group Employee Benefits brands. All of the advisers in this segment are employed with the exception of those within LighthouseWealth who are self-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 25. 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 6 and 7 to 12 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;
- increases in the scale and scope of regulation imposed by UK and European governments;
- the ability of the Group to recruit and retain quality financial advisers;
- the availability of professional indemnity insurance at commercially acceptable rates 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 retaining and recruiting quality financial advisers. Potential recruits are subject to financial and qualitative assessment, and management looks to ensure that the offerings from the Group are attractive to new and existing advisers whilst resisting pressure to erode margins or reduce the quality of advice provided.

The Group's income is aligned to external market conditions. Lower market returns reduce investors' appetite for retail investment products and reduce the recurring revenue derived from fund-based products. Senior management of the Group review market developments and key performance indicators such as adviser and divisional production 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 Conduct Authority ("FCA"). The Group has always sought to instil a compliant culture within its procedures so as to govern the activity of its employees and 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.

REPORT OF THE DIRECTORS (continued)

Financial risks

The Group writes a limited proportion 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 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.

Credit risks in respect of product providers are considered to be minimal, notwithstanding the recent turmoil in UK and global financial markets. The Group has established procedures to monitor closely where applicable 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 cash flow 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.

CHARITABLE DONATIONS

During the period, the Group donated obsolete IT equipment to local charitable organisations and schools with a net book value of £Nil (2015: £Nil).

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 19 to 22.

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 were as follows:

Richard Last
Malcolm Streatfield
Peter Smith
Kenneth Paterson
Alex Scott-Barrett
Fay Williams

In accordance with the Articles of Association and the Companies Act 2006, at the forthcoming AGM, Mr R Last and Mr K Paterson, being eligible, will be offering themselves for re-election. Mrs F Williams has informed the Board of her intention to retire as at the date of the forthcoming AGM and accordingly does not offer herself for re-election. Information in respect of directors' interests is disclosed in the Directors' Remuneration report on pages 19 to 22.

SUBSTANTIAL SHAREHOLDINGS

As at 14 February 2017 the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of holder	Number	%
Helium Rising Star Fund	25,731,685	20.15
Mr. Allan Rosengren	20,102,405	15.74
Liverpool Victoria Financial Advice Services Limited	8,353,706	6.54
Cavendish Asset Management	7,110,000	5.57
Mr. Julian Telling	6,568,908	5.14
Boston Trust Company Ltd	6,470,588	5.07
Old Mutual Wealth Holdings Limited	5,581,383	4.37
Mr. David Hickey	5,161,772	4.04
Aegon UK Plc	4,487,689	3.51

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise 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 25, 28 and 29 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.

The Group has considerable financial resources with £8.5 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants (other than a loan to value condition in respect of the bank loan secured solely on the Group's long-leasehold interest in the its Woodingdean property) and has long established relationships with its clients, advisers and providers. In addition, Lighthouse Advisory Services Limited, its sole trading regulated subsidiary entity, had a surplus of eligible assets over its minimum capital requirements for regulatory purposes of £3,291,000. 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.

REPORT OF THE DIRECTORS (continued)

As noted in previous reports, the Group has given undertakings to the FCA that its regulated subsidiaries will not make distributions or non-trading payments without discussion with and consent from the FCA. 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 is set out in Note 1 to both the consolidated financial statements under International Financial Reporting Standards as adopted by the EU and the parent company's financial statements.

ENVIRONMENT

The Group takes its social and environmental responsibilities seriously. Where possible the Group's offices use high efficiency, low energy equipment, lighting and heating. Paper waste generated from the Group's operations is recycled and/or destroyed 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 Group and Company's auditor is unaware of; and
- the director has taken all of the reasonable steps that he or she ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group and 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, to the extent appropriate given the Company's size and the constitution of the Board, to use the UK Corporate Governance Code issued by the Financial Reporting Council and which is appended to the Listing Rules of the FCA, as a guide to good practice in the area of corporate governance. The Board has separate roles for Chairman and Chief Executive.

The Board has established three committees, all of which are comprised of the non-executive directors of the Company: an Audit Committee, chaired by Alex Scott-Barrett, a Remuneration Committee, also chaired by Alex Scott-Barrett, with formally delegated responsibilities, and a Regulatory and Risk Committee chaired by Fay Williams and which includes the Group's Compliance and Risk Director.

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 four times a year to monitor the Group's compliance with regulatory and other risk related matters.

The Board has not established a Nominations 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.

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 employs an experienced qualified accountant as Group Audit Director who undertakes internal audit assignments and reports to the Chief Executive and the Audit Committee which approves the annual Group Internal Audit Plan.

AUDITOR

A resolution for the reappointment of KPMG LLP as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Peter Smith
Company Secretary

20 February 2017

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
Fay Williams

THE DIRECTORS’ REMUNERATION REPORT REGULATIONS 2002

The Group is not required to comply with S.I. 2013/1981 (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013), 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 and a Long Term Incentive Plan (“LTIP”), in which the executive directors and senior executives in the Group 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:

2016	M Streatfield £'000	P Smith £'000	K Paterson £'000
Salary & fees	**262**	**204**	**111**
Benefits	**6**	**7**	**1**
Bonus	**80**	**50**	**25**
Total excluding pensions	**348**	**261**	**137**
Pension	**5**	**4**	**2**
Total emoluments 2016	**353**	**265**	**139**

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

2015	M Streatfield £'000	P Smith £'000	K Paterson £'000
Salary & fees	259	202	110
Benefits	6	7	1
Bonus	60	40	20
Total excluding pensions	325	249	131
Pension	5	4	2
Total emoluments 2015	330	253	133

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

2016	R Last £'000	A Scott-Barrett £'000	F Williams £'000
Salary & fees being total emoluments	**60**	**36**	**32**

2015	£'000	£'000	£'000
Salary & fees being total emoluments	60	30	30

The increase in the remuneration paid to Alex Scott-Barrett during the year reflected his appointment to the Luceo Asset Management Investment Committee in September 2016.

DIRECTORS' REMUNERATION REPORT (continued)

INTERESTS IN OPTIONS

On 10 December 2015, the Company granted awards, under a new LTIP, comprising a total of 6,400,000 new options over new ordinary shares in the Company to its three executive directors. These options will vest after three years subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share.

Half of the options are subject to an earnings per share ("EPS") performance condition. The threshold vesting level (20 per cent. of the total options granted for this part of the award) will be basic EPS of 0.7 pence per ordinary share in the year ending 31 December 2017 and full vesting will take place should basic EPS for that year be at least 1.4 pence per ordinary share with straight-line vesting in between these points. The EPS figure used at both the start and end of the performance measurement period would be an adjusted EPS figure, calculated after a normalised tax charge. The adjusted EPS charge for 2016 was 1.19 pence per ordinary share with the equivalent figure for 2015 being 0.54 pence per ordinary share.

The remaining half of the options are subject to a total shareholder return (share price performance plus dividends added back) performance condition. The threshold vesting level (again for 20% of the total options granted for this part of the award) will be at 14p pence per ordinary share for the measurement period ending three years after the date of grant of the options, with full vesting at 22 pence per ordinary share and straight-line vesting in between these points.

The maximum number of new ordinary shares that can be issued under the LTIP and the Company's other employee share plans is capped at 15 per cent. of the Company's issued share capital within a 10 year period. The aggregate number of options outstanding as at 31 December 2016, 7,610,594, amounted to 6.0 per cent. of the Company's issued share capital.

The LTIP contains provisions in respect of vesting and exercise of options for variations in the share capital of the Company and for a change in control. The directors have received advice that, as at the date of grant of the LTIP options, the Company's shares qualified under the Enterprise Management Incentive ("EMI") legislation. Under that legislation, options granted to an individual employee up to an aggregate market value of £250,000 constitute approved options with the remainder being unapproved.

The following options were granted to executive directors on 10 December 2015 under the terms of the LTIP:

	Date granted	No. of ordinary shares	Exercise price	Earliest date exercisable	Latest date exercisable
M Streatfield	10 December 2015	3,250,000	1.0p	10 December 2018	10 December 2025
P Smith	10 December 2015	2,550,000	1.0p	10 December 2018	10 December 2025
K Paterson	10 December 2015	600,000	1.0p	10 December 2018	10 December 2025

For Mr M Streatfield, 2,564,102 of the options awarded as above qualified in principle under the EMI legislation and hence fall to be classified as approved share options, with the remaining 685,898 being unapproved (but still subject to the same performance conditions as set out above). All of the options allocated to Mr. P Smith and Mr. K Paterson qualified in principle under the EMI legislation and therefore fall to be classified as approved share options.

The market price of the Company's shares on 31 December 2016 was 11.50 (2015: 9.88) pence per share and the highest and lowest share prices during the year were 8.93 pence and 14.51 pence. No options have been exercised by the directors during the year.

DIRECTORS' INTERESTS

The directors who held office at 31 December 2016 had the following beneficial interest in the ordinary share capital of the Company at 31 December 2016 according to the register of directors' interests:

Director	**At 31 December 2016 No. of ordinary shares of 1p each**	At 31 December 2015 No. of ordinary shares of 1p each
Malcolm Streatfield	2,724,563	2,724,563
Richard Last	812,500	812,500
Peter Smith	330,000	330,000
Alex Scott-Barrett	305,000	305,000
Kenneth Paterson	25,000	25,000

Fay Williams had no beneficial interest in the ordinary share capital of the Company at 31 December 2016 or at 31 December 2015.

As part of the holdings shown above, Malcolm Streatfield had beneficial interests in 1,401,948 ordinary shares held in his Self Invested Personal Pension.

Alex Scott-Barrett
Chairman, Remuneration Committee

20 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 2016 set out on pages 25 to 61. 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 23, 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 2016 and of the Group's profit 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 Strategic Report and the Report of the Directors 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.

Ravi Lamba
(Senior Statutory Auditor)

for and on behalf of

KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

20 February 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Revenue	3	**47,919**	48,881
Cost of sales		**(33,452)**	(34,057)
Gross profit		**14,467**	14,824
Administrative expenses			
Operating expenses		**(12,259)**	(13,214)
Earnings before interest, tax, depreciation, amortisation		**2,208**	1,610
Depreciation and amortisation	5	**(299)**	(552)
Total administrative expenses		**(12,558)**	(13,766)
Operating profit		**1,909**	1,058
Finance income	6	**11**	14
Finance costs	6	**(27)**	(206)
Profit before taxation		**1,893**	866
Taxation	7	**750**	–
Profit after taxation and total comprehensive income for the year		**2,643**	866

Basic earnings per share	8	**2.07p**	0.68p
Adjusted basic earnings per share	8	**1.19p**	0.54p
Diluted earnings per share	8	**1.97p**	0.68p
Adjusted diluted earnings per share	8	**1.13p**	0.54p

All activities are classed as continuing.

The profit and total comprehensive income for both 2016 and 2015 were wholly attributable to the equity holders of the Company.

The notes on pages 31 to 61 form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	**Special non-distributable reserve £'000**	**Reserves arising from share-based payments £'000**	**Retained earnings £'000**	**Total attributable to equity shareholders £'000**
At 1 January 2016	**1,277**	**1,999**	**1,023**	**2,262**	**6,561**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**2,643**	**2,643**
Dividends paid	**–**	**–**	**–**	**(319)**	**(319)**
Share-based payment	**–**	**–**	**79**	**–**	**79**
At 31 December 2016	**1,277**	**1,999**	**1,102**	**4,586**	**8,964**

	Share capital £'000	Special non-distributable reserve £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total attributable to equity shareholders £'000
At 1 January 2015	1,277	1,999	1,023	1,651	5,950
Profit and total comprehensive income for the year	–	–	–	866	866
Dividends paid	–	–	–	(255)	(255)
At 31 December 2015	1,277	1,999	1,023	2,262	6,561

The notes on pages 31 to 61 form an integral part of these financial statements.

COMPANY STATEMENTS OF CHANGES IN EQUITY AT 31 DECEMBER 2016

	Share capital £'000	Special non-distributable reserve £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**1,277**	**90**	**667**	**2,636**	**4,670**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**808**	**808**
Dividends paid	**–**	**–**	**–**	**(319)**	**(319)**
Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (note 13)	**–**	**–**	**79**	**–**	**79**
At 31 December 2016	**1,277**	**90**	**746**	**3,125**	**5,238**

	Share capital £'000	Special non-distributable reserve £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total attributable to equity shareholders £'000
At 1 January 2015	1,277	90	667	2,205	4,239
Profit and total comprehensive income for the year	–	–	–	686	686
Dividends paid	–	–	–	(255)	(255)
At 31 December 2015	1,277	90	667	2,636	4,670

The notes on pages 31 to 61 form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Assets					
Non-current assets					
Intangible assets	**11**	**5,230**	5,284	**–**	–
Property, plant and equipment	**12**	**1,240**	1,271	**–**	–
Investments in subsidiaries	**13**	**–**	–	**5,238**	4,670
Deferred tax asset	**7**	**750**	–	**–**	–
		7,220	6,555	**5,238**	4,670
Current assets					
Trade and other receivables	**14**	**9,004**	13,266	**–**	–
Cash and cash equivalents	**15**	**8,501**	8,389	**–**	–
		17,505	21,655	**–**	–
Total assets		**24,725**	28,210	**5,238**	4,670
Current liabilities					
Trade and other payables	**16**	**9,302**	10,663	**–**	–
Provisions	**17**	**3,005**	6,591	**–**	–
		12,307	17,254	**–**	–
Non-current liabilities					
Trade and other payables	**16**	**405**	439	**–**	–
Provisions	**17**	**3,049**	3,956	**–**	–
		3,454	4,395	**–**	–
Total liabilities		**15,761**	21,649	**–**	–
Net assets		**8,964**	6,561	**5,238**	4,670
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		**1,102**	1,023	**746**	667
Retained earnings		**4,586**	2,262	**3,125**	2,636
Total equity attributable to equity holders of the Company		**8,964**	6,561	**5,238**	4,670

The financial statements on pages 25 to 61 were approved by the Board on 20 February 2017 and signed on its behalf by:

Malcolm Streatfield, Director
Peter Smith, Director

The notes on pages 31 to 61 form an integral part of these financial statements.

Company registered number 04042743.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Operating activities			
Profit before tax for the year		**1,893**	866
Adjustments to reconcile profit for the year to net cash outflows from operating activities			
Finance income	**6**	**(11)**	(14)
Finance costs	**6**	**27**	206
Depreciation of property, plant and equipment	**5**	**157**	153
Amortisation of intangible assets	**5**	**142**	399
Share-based payment	**20**	**79**	–
Change in trade and other receivables	**14**	**4,262**	(923)
Change in trade and other payables	**16**	**(1,361)**	(1,492)
Change in provisions	**17**	**(4,493)**	2,270
Cash generated from operations		**695**	1,465
Finance costs paid	**6**	**(27)**	(404)
Net cash inflow from operating activities		**668**	1,061
Investing activities			
Purchase of property, plant and equipment	**12**	**(126)**	(119)
Purchase of intangible costs	**11**	**(88)**	(69)
Finance income received	**6**	**11**	14
Net cash outflow from investing activities		**(203)**	(174)
Financing activities			
Redemption of unsecured loan notes		**–**	(1,273)
Bank loan repayments		**(34)**	(34)
Dividends paid to equity shareholders	**9**	**(319)**	(255)
Net cash outflow from financing activities		**(353)**	(1,562)
Increase/(decrease) in cash and cash equivalents		**112**	(675)
Cash and cash equivalents at the beginning of the year		**8,389**	9,064
Cash and cash equivalents at the end of the year	**15**	**8,501**	8,389

The notes on pages 31 to 61 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Operating activities			
Profit before tax for the year		**808**	686
Adjustments to reconcile profit for the year to net cash outflow from operating activities			
Change in trade and other receivables (net of impairment of amounts owed by group undertakings)	**14**	**–**	475
Change in trade and other payables	**16**	**–**	(198)
Change in impairment of investments in and amounts owed by subsidiary undertakings	**13**	**(489)**	565
Net cash inflow from operating activities		**319**	1,528
Financing activities			
Redemption of unsecured loan notes		**–**	(1,273)
Dividends paid to equity shareholders	**9**	**(319)**	(255)
Net cash outflow from financing activities		**(319)**	(1,528)
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 31 to 61 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 were authorised for issue by the board of directors on 20 February 2017 and the statements of financial position were signed on the Board's behalf by Malcolm Streatfield 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 2016. 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 2015

There were no changes in financial reporting and accounting standards effective for annual periods beginning on or after 1 January 2016, impacting the Group's 2016 accounts.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out within the Strategic Report (comprising the Chairman's Statement and the Chief Executive's Review) and the Report of the Directors within the Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Financial Commentary section of the Chief Executive's Review. In addition, Note 18 to the financial statements sets out the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and exposure to credit risk and liquidity risk.

The Group has considerable financial resources with some £8.5 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants (other than in respect of a loan to value condition attaching to the bank loan secured solely on the Group's long-leasehold interest in its premises in Woodingdean) and has long established relationships with its clients, advisers and providers. In addition, Lighthouse Advisory Services Limited, its trading regulated subsidiary entity, had a surplus of eligible assets over their minimum capital requirements for regulatory purposes of £3,291,000. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

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.

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 on-going 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:

- 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.

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.

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

The Group recognises other provisions as follows:

- Dilapidations are recognised over the period of the lease up to the maximum liability estimated by the directors having regard to the current physical condition of the properties covered and the related contractual obligations, and
- Other liabilities are included at their estimated likely outturn for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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.

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 fees (customer charges), commission and administration charges.

Fee and commission income comprise initial charges receivable on inception of a new policy or investment product ('initial commissions or charges') and on-going charges or commission receivable on renewal ('renewal commissions'). Initial charges or 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. On-going charges and renewal commissions are recognised on receipt when earned. Fees for 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.

Cost of sales

Costs of sales comprises the proportion of revenues recognised during the year payable to self-employed advisers and introducers under contractual arrangements, together with the employment costs of employed advisers.

Segmental reporting

The Board of Lighthouse Group plc, which considers itself to be the Chief Operating Decision Maker ("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, identifies those operating segments which are separable and required to be reported separately by IFRS 8.

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.

Revenues, costs, assets and liabilities (before eliminating inter-segment transactions) are allocated to those principal operating segments so identified and any residual segments including associated revenues, costs, assets and liabilities are aggregated and reported as "other segments".

The results of business activities which do not meet the definition of an operating segment e.g. central 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.

Finance income and costs, 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").

Business combinations and goodwill

Goodwill and intangibles arising from business combinations 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.

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.

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

Investments in group undertakings are stated in the Company's Statement of Financial Position 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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 from the time it is brought into use to its residual value based on prices prevailing at the balance sheet date, on a straight-line basis as follows:

Freehold and long-leasehold property	50 years
Leasehold improvements	Lower of life of lease or 10 years
Office equipment	5-10 years
Computer equipment	3 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 de-recognised 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 de-recognition of the asset is included in the Consolidated Statement of Comprehensive Income in the period of de-recognition.

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. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered to be impaired and is written down to its estimated recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit ("CGU")'s fair value less costs to sell and its value in use and is determined for individual assets or CGUs. In assessing value in use, the estimated future cash flows are discounted at a nominal, not real, 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 costs is discussed on page 37 of the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

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 cash flows 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.

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 contributes to a number of defined contribution schemes on behalf of employees and contributions are charged to the Consolidated Statement of Comprehensive Income in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Finance income and costs

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 costs 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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.

New standards and interpretations not applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- FRS 15 Revenue from Contracts with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date to be confirmed).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (effective date to be confirmed).

None of the standards and interpretations issued and not yet effective are expected to have a material impact on the Group's financial statements in the period of initial application.

The Group is assessing the impact of the above standards on the Group's future financial statements but does not expect any to have a material impact on results or financial position.

3. REVENUE AND SEGMENT REPORTING

The revenue and profit before taxation in both 2016 and 2015 were 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 wealth management 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 wealth management 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.

Other segments comprise those activities which do not fall to be classified as operating segments, as defined on pages 33 and 34.

Segment information is as follows:

Year ended 31 December 2016	National £'000	Network £'000	Wealth management £'000	Other segments £'000	Total £'000
Total revenues	15,717	47,638	8,422	–	71,777
Less inter-segment revenues	–	(23,858)	–	–	(23,858)
External revenues	15,717	23,780	8,422	–	47,919
Cost of sales and other operating expenses	(13,029)	(23,716)	(8,745)	(221)	(45,711)
EBITDA	2,688	64	(323)	(221)	2,208
Depreciation and amortisation					(299)
Operating profit					1,909
Finance income					11
Finance costs					(27)
Profit before taxation					1,893

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Year ended 31 December 2015	National £'000	Network £'000	Wealth management £'000	Other segments £'000	Total £'000
Total revenues	16,074	48,124	8,829	–	73,027
Less inter-segment revenues	–	(24,146)	–	–	(24,146)
External revenues	16,074	23,978	8,829	–	48,881
Cost of sales and other operating expenses	(13,028)	(24,699)	(8,573)	(971)	(47,271)
EBITDA	3,046	(721)	256	(971)	1,610
Depreciation and amortisation					(552)
Operating profit					1,058
Finance income					14
Finance costs					(206)
Profit before taxation					866

Segment assets and liabilities are as follows:

	2016 £'000	2015 £'000
Segment assets		
National	**1,711**	1,572
Network	**17,615**	22,598
Wealth management	**3,858**	3,624
Other segments and unallocated	**7,194**	8,320
Total assets including inter-segment	**30,378**	36,114
Inter-segment assets	**(5,653)**	(7,904)
Total assets per financial statements	**24,725**	28,210
Segment liabilities		
National	**2,572**	3,144
Network	**12,101**	18,265
Wealth management	**854**	920
Other segments and unallocated	**5,887**	7,224
Total liabilities including inter-segment	**21,414**	29,553
Inter-segment liabilities	**(5,653)**	(7,904)
Total liabilities per financial statements	**15,761**	21,649

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

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

	2016 £'000	2015 £'000
Wages and salaries – advisers	**1,423**	1,760
Wages and salaries – other staff	**5,137**	5,076
Share-based payment	**79**	–
Social security costs	**723**	740
Other pension costs	**193**	286
Total charged to statement of comprehensive income	**7,555**	7,862

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

	Number	Number
Executive directors	**3**	3
Financial advisers	**23**	26
Administration staff	**117**	127
	143	156

The executive directors of the Company, as detailed in the Directors' Remuneration Report on pages 19 to 22, are considered to be the key management personnel within the Group.

Directors

	2016 £'000	2015 £'000
Base remuneration (including bonus)	**874**	825
Company contributions to money purchase pension schemes	**11**	11
	885	836

Highest paid director

	2016 £'000	2015 £'000
Base remuneration (including bonus)	**348**	325

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

5. OPERATING PROFIT

The operating profit of the Group is stated after charging:

	2016 £'000	2015 £'000
Amortisation of intangible assets	**142**	399
Depreciation of property, plant and equipment	**157**	153
Leasehold property – lease payments	**225**	205
Hire of equipment under operating leases	**88**	93

Auditor's remuneration

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

	2016 £'000	2015 £'000
Audit of the financial statements	**65**	65
Other fees to auditor:		
Local statutory audits for subsidiaries	**52**	52
Other fees to auditor – Taxation services	**18**	16
Other services	**8**	–
	143	133

6. FINANCE INCOME AND COSTS

Finance income

	2016 £'000	2015 £'000
Bank interest receivable	11	14
Total finance income	**11**	14

Finance costs

	2016 £'000	2015 £'000
Interest on short-term funding	**(13)**	(58)
Interest on bank loan (note 16)	**(14)**	(15)
Interest on unsecured loan notes	**–**	(133)
Total costs	**(27)**	(206)

The total finance costs paid in the year amounted to £27,000 (2015: £404,000) and included £Nil interest (2015: £198,000) accrued but not paid in prior years in respect of the unsecured loan notes.

7. TAXATION

(a) Analysis of credit in year

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax charge at 20.00% (2015: 20.25%)	–	–
Deferred tax credit (see below)	750	–
Tax credit on profit on ordinary activities	**750**	–

(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:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	1,893	866
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	379	175
Effects of:		
Share-based payment charge not deductible for tax purposes	16	–
Expenses not deductible for tax purposes	5	4
Capital allowances in excess of depreciation for the year	(3)	(4)
Other timing and permanent differences	(1)	(21)
Brought forward tax losses utilised	(396)	(238)
Deferred tax asset recognised (see below)	(750)	–
Current year losses not relieved	–	84
Tax charge/(credit) for year	**(750)**	–

c) Deferred tax – Group

The deferred tax balances evaluated at 18.35% (2015: 20%) can be analysed as follows:

	2016		2015	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Difference between accumulated depreciation and capital allowances	–	(4)	–	44
Trading losses	750	791	–	2,107
Deferred tax asset	**750**	**787**	–	2,151

The Group has recognised a deferred tax asset which represents the proportion of unutilised corporation tax losses as at 31 December 2016 that are now considered by the Group to be recoverable in the foreseeable future. This position will continue to be reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

8. EARNINGS PER ORDINARY SHARE

The calculation of the basic earnings per ordinary share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year of 127,700,298 (2015: 127,700,298).

As at 31 December 2016, there were 610,594 options (2015: 1,075,166 options) that existed which could potentially dilute basic earnings per share in the future, but were regarded as being anti-dilutive and therefore were not included in the calculation of dilutive shares, as their exercise price was higher than the average mid-market price of the Company's ordinary shares during the period. The 7,000,000 options issued under the Company's Long Term Incentive Plan as at 31st December 2016 (2015: 6,400,000 options) are included in the calculation of diluted shares, as their exercise price was lower than the average mid-market price of the Company's ordinary shares during the period. The weighted average number of shares for the purposes of calculating the fully diluted earnings per share during the year was 133,831,689 (2015: 128,068,517).

Reconciliations of the profit and earnings per share used in the calculations are set out below:

	2016		2015	
	Earnings £'000	**Per share amount Pence**	Earnings £'000	Per share amount Pence
Basic earnings per share				
The basic earnings per share can be analysed as follows:				
On EBITDA	**2,208**	**1.73p**	1,610	1.26p
Effects of:				
Depreciation and amortisation	**(299)**	**(0.24p)**	(552)	(0.43p)
Net finance cost	**(16)**	**(0.01p)**	(192)	(0.15p)
Tax credit	**750**	**0.59p**	–	–
Profit attributable to ordinary shareholders	**2,643**	**2.07p**	866	0.68p
Dilutive effect				
Options	**–**	**(0.10p)**	–	–
Diluted profit per share	**2,643**	**1.97p**	866	0.68p

The adjusted basic earnings per share of 1.19 pence per ordinary share and the adjusted diluted earnings per share of 1.13p per ordinary share (2015: 0.54 pence per ordinary share in each case) are based on the adjusted profit after taxation of £1,893,000 after exclusion of the deferred tax credit of £750,000 and is stated after applying a standard tax charge of 20 per cent. (2015: 20.25 per cent.).

9. DIVIDENDS PAID AND PROPOSED

Paid:

	2016 £'000	2015 £'000
2015 final dividend at 0.16 pence per share (2014: 0.12 pence per share)	**204**	153
2016 interim dividend at 0.09 pence per share (2015: 0.08 pence per share)	**115**	102
	319	255

The directors recommend a final dividend for 2016 of 0.18 pence per share (2015: 0.16 pence per share).

10. PROFIT FOR THE FINANCIAL YEAR

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

The Company's profit for the financial year was £808,000, (2015: £686,000) comprising provision movements against the carrying value of investments in subsidiaries and amounts due from subsidiary undertakings, the latter not being dealt with in the Group result.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

11. INTANGIBLE ASSETS

Group

	Goodwill £'000	Commissions processing software and development costs £'000	Acquired customer relationships £'000	Acquired Appointed Representative and adviser contracts £'000	Total £'000
Cost					
At 1 January 2015	11,489	900	1,183	9,516	23,088
Additions	31	38	–	–	69
At 31 December 2015	11,520	938	1,183	9,516	23,157
Additions	3	85	–	–	88
At 31 December 2016	**11,523**	**1,023**	**1,183**	**9,516**	**23,245**
Amortisation					
At 1 January 2015	6,549	693	1,020	9,212	17,474
Charge for the year	–	188	132	79	399
At 31 December 2015	6,549	881	1,152	9,291	17,873
Charge for the year	–	32	31	79	142
At 31 December 2016	**6,549**	**913**	**1,183**	**9,370**	**18,015**
Net book amount					
At 31 December 2016	**4,974**	**110**	**–**	**146**	**5,230**
At 31 December 2015	4,971	57	31	225	5,284

The value of goodwill comprises £1,315,000 allocated to the national segment, and £3,625,000 to the wealth management segment. The value of goodwill allocated to the network segment (£5,738,000) was fully amortised or impaired as at 31 December 2016 and 2015.

The addition to goodwill in 2016 of £3,000 (2015: £31,000) arose as a result of certain liabilities assumed on Lighthouse Benefits Limited, a wholly-owned and non-trading subsidiary of the Company, becoming the principal employer to the Corporate Pensions Trust, which Trust incorporates the Group's proprietary Lighthouse Pension Trust ("LPT") product.

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 2017 financial year and its forecast for financial years to 2021. Long term cash flows are projected from the 2021 forecast using a nominal growth rate of 1.5 per cent. in 2022 and thereafter, being the directors' best estimate of the long term growth rate of the UK economy. Cash flows, which exclude inflation, are discounted at a nominal, not real, post-tax discount rate of 12 per cent. in 2017, increasing with the impact of lower corporation tax rates in 2018 and onwards, all of which equate to a nominal pre-tax discount rate of 15 per cent. (2015: 15 per cent.).

The calculation of values in use is most sensitive to:

- the success of the Group's development and recruitment plans in its national and wealth management segments;
- the level of adviser productivity;
- the assumed rate of long term growth in cash flows; and
- the discount rate applied to the estimated future cash flows.

Management has based its estimates of future cash flows on a cautious assessment of the impact of future external market conditions on investors' appetite for investment products. 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 discernible 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 2016 indicated surpluses over the net book value of the goodwill and intangible assets in respect of the national and wealth management CGUs. Accordingly no further impairment charge is required (2015: £Nil).

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 £'000	Wealth management £'000
A 1% increase in the pre-tax discount rate applied to the estimated future cash flows	(934)	(373)
A 1% decrease in the pre-tax discount rate applied to the estimated future cash flows	1,087	437
A 0.5% reduction in growth rate assumed from 2016 onwards	(384)	(159)
A 0.5% increase in the growth rate assumed from 2016 onwards	420	175
A 0.5% increase in the assumed annual rate of growth in adviser productivity	357	305
A 0.5% decrease in the assumed annual rate of growth in adviser productivity	(352)	(300)

None of the above sensitivities would, in isolation, require any additional impairment charge to be made. The directors have considered the sensitivity of the impairment testing to a number of credible alternative assumptions, which combine a number of the sensitivities above. In some of these credible alternative scenarios the headroom is significantly reduced, but do not indicate impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Long-leasehold land and buildings £'000	Office & computer equipment £'000	Total £'000
Cost			
At 1 January 2015	1,085	1,943	3,028
Additions at cost	–	119	119
At 31 December 2015	1,085	2,062	3,147
Additions at cost	–	126	126
Disposals	–	(7)	(7)
At 31 December 2016	**1,085**	**2,181**	**3,266**
Depreciation			
At 1 January 2015	22	1,701	1,723
Provided in the year	22	131	153
At 31 December 2015	44	1,832	1,876
Provided in the year	22	135	157
Disposals	–	(7)	(7)
At 31 December 2016	**66**	**1,960**	**2,026**
Net book amount			
At 31 December 2016	**1,019**	**221**	**1,240**
Net book amount			
At 31 December 2015	1,041	230	1,271

13. INVESTMENTS

Company – investments in subsidiary undertakings

	2016 £'000	2015 £'000
Cost at 1 January	**18,724**	18,724
Equity contribution to subsidiary undertaking in respect of share-based payments pursuant to IFRIC 8	**79**	–
Cost at 31 December	**18,803**	18,724
Provision for impairment at 1 January	**(14,054)**	(13,489)
Movement in impairment provisions during the year	**489**	(565)
Provision for impairment at 31 December	**(13,565)**	(14,054)
Net book value at 31 December	**5,238**	4,670

Subsidiary undertakings

The principal trading subsidiary undertakings of the Company (which are all wholly-owned) are:

Name of company	Nature of business	% of issued shares held and voting rights
Lighthouse Advisory Services Limited	Provision of regulatory authorisation, business services and financial advice	100%
Lighthouse Financial Advice Limited	Provision of financial advice	100%
LighthouseCarrwood Limited	Provision of financial advice	100%
LighthouseWealth Limited	Provision of financial advice	100%
Falcon Financial Advice Limited	Provision of financial advice	100%
Lighthouse Corporate Services Limited	Provision of business services	100%
Lighthouse Support Services Limited	Provision of Group facilities	100%
Luceo Asset Management Limited (incorporated 27th April 2016)	Sponsorship and development of investment solutions and products	100%

All interests in the subsidiaries above are held directly by the Company. All companies are incorporated and operate in the UK, are included in the Group's 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 addition, the Company has a number of non-trading and/or dormant subsidiaries, the latter not being subject to an audit. These are:

Name of company	Holding company	% of issued shares held and voting rights
The Falcon Group Limited**	Lighthouse Group plc	100%
Financial Services Advice & Support Limited**	Lighthouse Group plc	100%
Lighthouse Benefits Limited*	LighthouseXpress Limited	100%
Lighthouse Financial Adviser Services Limited*	LighthouseXpress Limited	100%
Lighthouse Financial Advisers Limited*	LighthouseXpress Limited	100%
LighthouseXpress Limited*	Lighthouse Group plc	100%
Lighthouse Direct Limited*	Lighthouse Group plc	100%
Lighthouse Temple Limited*	Lighthouse Group plc	100%
Lighthouse Wealth Management Limited*	Lighthouse Group plc	100%
Lighthouse+ Limited*	Lighthouse Group plc	100%
LighthousePensions Limited*	Lighthouse Group plc	100%
LighthousePlus Limited*	Lighthouse Group plc	100%

* Dormant and non-trading. ** Non-trading.

All of the subsidiaries of the Company have the same registered office as that of the Company with the exception of Financial Services Advice & Support Limited, which is registered in Scotland and whose registered office is c/o HBJ Gateley Waring, 19 Canning Street, Edinburgh EH3 8EH.

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 the undertakings given by those entities to the FCA that no distributions or non-trading payments will be made without prior discussion with and assent from the FCA. The distributable reserves of Lighthouse Advisory Services Limited exceeded its minimum capital requirement for regulatory purposes as at 31 December 2016 by £1,602,000 (2015: £587,000). Financial Services Advice & Support Limited and The Falcon Group Limited, which are non-trading subsidiaries of the Company, no longer have any regulated activity nor any regulatory capital requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

14. TRADE AND OTHER RECEIVABLES

	Group 2016 £'000	Company 2016 £'000	Group 2015 £'000	Company 2015 £'000
Trade receivables	**2,617**	**–**	3,108	–
Other receivables	**4,087**	**–**	7,953	–
Prepayments and accrued income	**2,300**	**–**	2,205	–
	9,004	**–**	13,266	–

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:

	2016 £'000	2015 £'000
At the beginning of the year	**432**	850
Charged to the Consolidated Statement of Comprehensive Income	**14**	78
Utilised/released during the year (including fully provided debt written off)	**(232)**	(496)
At the end of the year	**214**	432

Amounts owed by group undertakings in the Company's Statement of Financial Position are stated net of an impairment provision of £8,963,000 (2015: £9,282,000).

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
2016	**2,617**	**334**	**1,079**	**713**	**350**	**25**	**116**
2015	3,108	352	1,281	719	630	–	126

15. CASH AND SHORT TERM DEPOSITS

Group

	2016 £'000	2015 £'000
Short-term deposits and current account balances	**8,501**	8,389

Material current account balances are swept to zero on a daily basis. 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 £8,501,000 (2015: £8,389,000).

16. TRADE AND OTHER PAYABLES

Current:

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Trade payables	**6,787**	**–**	8,007	–
Other taxation and social security	**500**	**–**	550	–
Other payables	**29**	**–**	16	–
Accruals and deferred income	**1,952**	**–**	2,056	–
Bank loan (secured)	**34**	**–**	34	–
	9,302	**–**	10,663	–

Included within other payables is an amount of £21,774 (2015: £21,993) in respect of unpaid pension contributions.

Non-current:

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Bank loan (secured)	**405**	**–**	439	–

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 (where applicable) commencing halfway through the accounting period in which they arise in those subsidiaries that pay corporation tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

The bank loan is secured on the Group's long-leasehold interest in its premises at Woodingdean, near Brighton, and is guaranteed by the Company. It is repayable by quarterly instalments until October 2018 following which the loan will be refinanced or rolled over (with the bank's approval) and is subject to interest at LIBOR plus 2.5 per cent. per annum, payable quarterly in arrears. There are no formal covenants (other than a loan to value limit of 65%) in relation to this loan.

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) with the exception of the long-leasehold interest in Woodingdean referred to above which is subject to an on-going annual peppercorn rent only.

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

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Future minimum payments due:				
Not later than one year	**265**	**–**	326	–
After one year but not more than five years	**628**	**–**	1,086	–
In more than five years	**–**	**–**	40	–
	893	**–**	1,452	–

17. PROVISIONS – GROUP

	Provision for clawback of indemnity commission £'000	Complaints provision £'000	Other provisions £'000	Total £'000
At 1 January 2016				
Current	761	5,404	426	6,591
Non-current	934	2,684	338	3,956
	1,695	8,088	764	10,547
Charge to the Consolidated Statement of Comprehensive Income	818	47	(200)	665
Utilised during the year	(837)	(3,895)	(426)	(5,158)
At 31 December 2016	**1,676**	**4,240**	**138**	**6,054**
Analysed as:				
Current	**728**	**2,227**	**50**	**3,005**
Non-current	**948**	**2,013**	**88**	**3,049**
	1,676	**4,240**	**138**	**6,054**

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 2016. The amount represents the gross obligation and, where these amounts can be recovered from advisers an asset is recognised. At 31 December 2016, the gross amount recognised was £1,257,000 (2015: £1,242,000). 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 2016, the amount recognised within trade and other debtors was £3,665,000 (2015: £6,775,000).

Other provisions
Other provisions include £Nil (2015: £576,000) 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. At 31 December 2016, the amount recognised within trade and other debtors was £Nil (2015: £402,000). In addition, other provisions include £88,000 (2015: £138,000) for estimated dilapidations that may arise at the expiry of the Group's property leases and £50,000 (2015: £50,000) in respect of other commercial obligations.

Provisions – Company
A provision is made against investments in subsidiary undertakings where the carrying value of such investment exceeds the net asset value of that subsidiary 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise cash, receivables and payables. The Group and the Company have financed their operations principally from equity share issues and operational cash flows, along with the issue of unsecured loan notes and the receipt of a bank loan secured on the long-leasehold interest in the Group's premises in Woodingdean.

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 on-going 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 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.

Interest rate risk

This is the risk that the Group might be exposed to additional costs as a result of its current financing arrangements and future adverse movements in market interest rates in the UK.

With regard to finance revenue the Group had significant cash balances throughout the year and as at 31 December 2016. 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 received a secured bank loan during 2013 bearing interest at LIBOR plus 2.5 per cent. per annum. As the Group has gross cash balances of £8.5 million as at 31 December 2016 (before deduction of the bank loan referred to above) the excess cash held provides a substantial mitigant against any adverse variation in LIBOR.

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

	Increase/decrease in interest rates £'000	Effect on profit before tax £'000	Effect on equity £'000
For the 12 months ended 31 December 2016	**+1%**	**76**	**76**
	-1%	**(1)**	**(1)**
For the 12 months ended 31 December 2015	+1%	66	66
	-1%	9	9

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 2016 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 2016						
Trade and other payables	**6,063**	**247**	**466**	**11**	**–**	**6,787**
Other financial liabilities	**1,262**	**429**	**797**	**432**	**–**	**2,920**
	7,325	**676**	**1,263**	**443**	**–**	**9,707**
Year ended 31 December 2015						
Trade and other payables	7,382	269	356	–	–	8,007
Other financial liabilities	917	691	1,049	439	–	3,096
	8,299	960	1,405	439	–	11,103

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Fair value of financial instruments

There is no significant difference between the book values and fair values of the financial assets and liabilities of the Group 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 2016 (2015: £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 the Group's regulatory capital, its on-going 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 2016 and 2015, and its policy is to continue to maintain, sufficient capital to meet the regulatory requirements of its regulated subsidiaries.

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

	2016		2015	
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.

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2016:

Number of share options at 31 December 2015	**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 2016**	**Exercise price (pence)**	**Exercise period**
135,001	**–**	**–**	**–**	**135,001**	**24.0**	**23/10/10 to 22/10/17**
11,162	**–**	**–**	**–**	**11,162**	**21.5**	**12/05/11 to 11/05/18**
146,163	**–**	**–**	**–**	**146,163**		

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2015:

Number of share options at 31 December 2014	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 2015	Exercise price (pence)	Exercise period
1,867,182	–	–	(1,732,181)	135,001	24.0	23/10/10 to 22/10/17
1,499,913	–	–	(1,488,751)	11,162	21.5	12/05/11 to 11/05/18
3,367,095	–	–	(3,220,932)	146,163		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2016:

Number of share options at 31 December 2015	**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 2016**	**Exercise price (pence)**	**Exercise period**
227,026	**–**	**–**	**(227,026)**	**–**	**18.5**	**25/04/09 to 24/04/16**
150,000	**–**	**–**	**(150,000)**	**–**	**21.0**	**15/03/09 to 14/03/16**
25,000	**–**	**–**	**(25,000)**	**–**	**21.0**	**01/06/09 to 31/05/16**
63,000	**–**	**–**	**(6,500)**	**56,500**	**20.0**	**06/03/10 to 05/03/17**
65,000	**–**	**–**	**–**	**65,000**	**29.0**	**27/07/10 to 26/07/17**
351,539	**–**	**–**	**(50,000)**	**301,539**	**24.0**	**23/10/10 to 22/10/17**
47,438	**–**	**–**	**(6,046)**	**41,392**	**21.5**	**12/05/11 to 11/05/18**
929,003	**–**	**–**	**(464,572)**	**464,431**		

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2015:

Number of share options at 31 December 2014	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 2015	Exercise price (pence)	Exercise period
227,026	–	–	–	227,026	18.5	25/04/09 to 24/04/16
160,254	–	–	(10,254)	150,000	21.0	15/03/09 to 14/03/16
25,000	–	–	–	25,000	21.0	01/06/09 to 31/05/16
63,000	–	–	–	63,000	20.0	06/03/10 to 05/03/17
65,000	–	–	–	65,000	29.0	27/07/10 to 26/07/17
411,795	–	–	(60,256)	351,539	24.0	23/10/10 to 22/10/17
326,506	–	–	(279,068)	47,438	21.5	12/05/11 to 11/05/18
1,278,581	–	–	(349,578)	929,003		

The following options were granted under the Company's new Long Term Incentive plan on 10 December 2015 and were held as at 31 December 2016:

Number of share options at 31 December 2015	**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 2016**	**Exercise price (pence)**	**Exercise period**
Approved						
5,714,102	**600,000**	**–**	**–**	**6,314,102**	**1.0**	**10/12/18 to 10/12/25**
Unapproved						
685,898	**–**	**–**	**–**	**685,898**	**1.0**	**10/12/18 to 10/12/25**
6,400,000	**600,000**	**–**	**–**	**7,000,000**		

20. SHARE-BASED PAYMENTS

(a) There are four 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 was granted. The exercise price of the option is the prevailing market price at the date of grant. The contractual life of the option is ten years and there are no cash settlement alternatives. There are no performance conditions attached and the options lapse should the employee leave.

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

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

Long Term Incentive Plan ("LTIP")
On 10 December 2015, the Company granted awards, under a new LTIP, comprising a total of 6,400,000 new options over new ordinary shares in the Company to its three executive directors. These options will vest after three years subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share. A further 600,000 new options carrying the same conditions were granted to an additional senior employee of the Group on 14th July 2016 (effective from 10 December 2015).

Half of the options are subject to an earnings per share ("EPS") performance condition. The threshold vesting level (20 per cent. of the total options granted for this part of the award) will be basic EPS of 0.7 pence per ordinary share in the year ending 31 December 2017 and full vesting will take place should basic EPS for that year be at least 1.4 pence per ordinary share with straight-line vesting in between these points. The EPS figure used at both the start and end of the performance measurement period would be an adjusted EPS figure, calculated after a normalised tax charge. The adjusted EPS charge for 2016 was 1.19 pence per ordinary share with the equivalent figure for 2015 being 0.54 pence per ordinary share.

The remaining half of the options are subject to a total shareholder return (share price performance plus dividends added back) performance condition. The threshold vesting level (again for 20% of the total options granted for this part of the award) will be at 14p pence per ordinary share for the measurement period ending three years after the date of grant of the options, with full vesting at 22 pence per ordinary share and straight-line vesting in between these points.

The maximum number of new ordinary shares that can be issued under the LTIP and the Company's other employee share plans is capped at 15 per cent. of the Company's issued share capital within a 10 year period. The aggregate number of options outstanding as at 31 December 2016, 7,610,594, amounted to 6.0 per cent. of the Company's issued share capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

The LTIP contains provisions in respect of vesting and exercise of options for variations in the share capital of the Company and for a change in control. The directors have received advice that, as at the date of grant of the LTIP options, the Company's shares qualified under the Enterprise Management Incentive ("EMI") legislation. Under that legislation, options granted to an individual employee up to an aggregate market value of £250,000 constitute approved options with the remainder being unapproved.

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

	2016 Number	**2016 WAEP (pence)**	2015 Number	2015 WAEP (pence)
Outstanding at 1 January	**7,475,166**	**4.06**	4,645,676	22.64
Granted during the year	**600,000**	**1.00**	6,400,000	1.00
Forfeited/expired during the year	**(464,572)**	**20.09**	(3,570,510)	22.75
Outstanding at 31 December	**7,610,594**	**2.84**	7,475,166	4.06
Exercisable 31 December	**610,594**	**23.95**	1,075,166(*)	22.28(*)

(*) The 2015 figures have been restated to exclude options under the LTIP previously included but which were not exercisable as at 31 December 2015.

For the share options outstanding at 31 December 2016, the weighted average remaining contractual life is 8.29 years (2015: 6.19 years). The range of exercise prices for options outstanding at 31 December 2016 was 1 pence – 29 pence (2015: 1 pence to 29 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:

	2016 £'000	2015 £'000
Fair value of options	79	–

(d) **Fair value of options granted during the year**
The options granted in 2016 had a fair value at grant date of 7.17p per share (2015 7.17p per share).

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

The Group had capital commitments in the form of IT projects of £331,000 as at 31 December 2016 (2015: £57,000).

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:

National/Affinity:
- **Lighthouse Financial Advice, a national advisory business focused on providing appropriate financial advice and solutions to the market area termed "Middle Britain", servicing affinity partners through self-employed advisers.**
- **Advisers use the Lighthouse Financial Advice brand.**
- **Higher margins and more support/direction from Group management.**
- **Affinity-based proposition.**
- **Advisers use Lighthouse Researched Solutions, including the Luceo Funds, and Lighthouse Fairway operating system as a matter of course.**

Wealth Management:
- **Highly-skilled advisers operating under LighthouseCarrwood (incorporating Lighthouse Group Employee Benefits) and LighthouseWealth brands.**
- **Employed and self-employed advisers provide independent, 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.**
- **Instrumental in addressing service provision gaps inherent within the workplace solutions and auto-enrolment markets.**

Communities/Network:
- **Lighthouse Advisory Services, a 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 services.**

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