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DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

Directors

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

Secretary
Mark Ross

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26 Throgmorton Street
London
EC2N 2AN

Registered number: 04042743

Auditor
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Bristol
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Solicitors
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Bristol
BS2 0ZX

Foot Anstey
Senate Court
Sothernhay Gardens
Exeter
EX1 1NT

Bankers
NatWest Bank plc
59 High Street
Exeter
EX4 3DL

Brokers & Nominated Advisers
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London
W1S 4JU

Public Relations
Abchurch Communications Ltd
125 Old Broad Street
London
EC2N 1AR

Winningtons Financial PR Ltd
WestPoint
78 Queens Road
Clifton
Bristol
BS8 1QX

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

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CHAIRMAN'S STATEMENT

OVERVIEW

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

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

TRADING HIGHLIGHTS

	2010	2009 Restated
Revenue	**£63.1m**	£60.7m
Operating costs (before non-recurring items) *	**£14.4m**	£14.7m
EBITDA **	**£1.32m**	£1.08m
Gain on disposal of pensions administration businesses	**£1.24m**	-
Earnings per share (basic)	**1.14p**	0.12p
Dividends per share ***	**0.36p**	0.3p

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

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

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

RESULTS

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

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

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

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

"Revenues rose steadily and EBITDA rose by 22 per cent. In an industry with tight profit margins, this was a creditable outcome."

CHAIRMAN'S STATEMENT (continued)

RECURRING INCOME

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

BALANCE SHEET

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

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

SALE OF THE PENSIONS DIVISION

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

"Gross recurring revenues rose to £17.6 million from £16.4 million."

DIVIDENDS

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

OPERATIONAL AND BRANDING RESTRUCTURE

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

1. **Lighthouse Financial Advice ("LFA"):** this comprises the former LighthouseTemple and LighthouseGP National sub-divisions, and focuses on procuring new business leads for Lighthouse branded self-employed advisers, assisted and monitored by Regional Directors. Margins are strong with particularly close Group proximity to clients, resulting in a growing database of active accounts;

2. **Lighthouse Advisory Services and LighthouseFSAS:** this encompasses all the Group's Network offerings including those previously branded as Falcon Group and LighthouseXpress. It offers services to self-employed advisers through a number of offerings designed primarily to assist their back office operations, to provide professional indemnity insurance for them and to assist them in complying with their regulatory obligations; and

3. **Specialist Services:** LighthouseCarrwood and Lighthouse Group Employee Benefits together offer independent advice to the accountancy market, high net worth individuals and the corporate market, all through an employed adviser base. This segment produces good margins, has a healthy bias towards fees and recurring revenues and is well placed to benefit from the government's auto-enrolment initiative.

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CHAIRMAN'S STATEMENT (continued)

NEW BUSINESS LEADS

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

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

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

> "The Group's new client procurement capability is growing in importance as a differentiator.... Lighthouse is now a leading adviser in the affinity arena."

RETAIL DISTRIBUTION IMPLEMENTATION PROGRAMME ("RDIP")

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

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

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

CHAIRMAN'S STATEMENT (continued)

STRATEGY AND PROSPECTS

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

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

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

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

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

David Hickey
Executive Chairman

23 March 2011

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JOINT CHIEF EXECUTIVES' REVIEW

OVERVIEW

2010 saw satisfactory operating and financial progress against an improving UK investment background with revenues advancing by 4 per cent. from 2009, and EBITDA of £1.32 million rising from £1.08 million in 2009. The near doubling of client assets held within fund of fund arrangements under the LighthouseCapital programme contributed towards an increase in recurring revenues which now amount to some £18 million or 28 per cent. of total Group revenues.

The Group continued to assist its advisers in preparing for the RDIP both in achieving the required qualifications that will be necessary to continue trading and also in redefining business models to be compliant with the post-RDIP remuneration regulations.

OPERATIONS

The Group provides financial advice through 729 advisers (as at 31 December 2010) operating via three business segments. These are:

- the newly-merged and re-branded National, Lighthouse Financial Advice ("LFA"),
- the Networks, a new merged entity, Lighthouse Advisory Services ("LASER"), and LighthouseFSAS and
- a Specialist Services component focusing on corporate and professional connections.

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

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

At 31 December 2010 the Group employed 182 staff of whom 27 were salaried advisers working within the Specialist Services segment. The Group operates out of seven principal locations with offices in the City of London, Brighton, Bristol, Dunfermline, Exeter, Leeds and Stockport.

LFA

LFA (formerly LighthouseTemple and LighthouseGP) comprises 240 self-employed advisers focused on providing financial advice into the Group's affinity relationships. This is done through generating significant seminar, surgery and presentational activity which together with the Brighton call centre led to some 11,500 new client appointments in 2010.

LASER AND LIGHTHOUSEFSAS

This Network segment comprises 462 self-employed advisers within three regulated entities. Two of these, being LighthouseXpress Limited and Falcon Group Plc, will formally merge on 31 March 2011 to form LASER and will merge their respective support operations into the Group's principal operations centre in Exeter. Financial Services Advice & Support Limited ("LighthouseFSAS") will continue as a separate regulated entity and will be supported from the Dunfermline base.

JOINT CHIEF EXECUTIVES' REVIEW (continued)

Advisers who are authorised through the Network segment typically trade under their own brand names. Many employ their own staff and tend to have a variety of back office systems and other technology used in the development of their own business activities, including client management and servicing. Services provided by the Group include regulatory cover, risk management support, research and professional indemnity insurance.

SPECIALIST SERVICES

This segment trades as LighthouseCarrwood and Lighthouse Group Employee Benefits, and comprises 27 salaried advisers servicing high net worth private clients and corporate accounts. These are sourced from key professional connections, primarily accountancy firms and prospective corporate clients. The specialist pension and employee benefit functions within this segment are also available to all advisers across the Group.

FINANCIAL COMMENTARY

The results of the Group for the year ended 31 December 2010 are set out in the Consolidated Statement of Comprehensive Income on page 22.

REVENUE AND GROSS MARGINS

The second half of 2010 accounted for £30.5 million of the total revenues of £63 million for the year and were 6 per cent. lower than in the first six months and 3 per cent. lower than the same period in 2009. This reflected the reduction in adviser numbers in comparison with the prior year, as well as the sale of the Pensions Division in August 2010. However average revenues per adviser (excluding recharges) increased by 12 per cent. or £7,400 to £68,800 in 2010, from £61,400 in 2009. Gross margins decreased fractionally in comparison with 2009. The decrease derived from a higher proportion of the Group's revenues being produced by the Network division with lower gross margins, together with the sale of the Pensions Division which produced high gross margins but was sub-scale in comparison to its cost base.

OPERATING COSTS

Operating costs (excluding non-recurring items) chiefly comprise staff costs (excluding remuneration of salaried advisers), regulatory and insurance costs, as well as other expense categories such as premises, technology and professional costs. They decreased from 2009 levels by £266,000 due to continuing close monitoring and control of expenditure and the sale of the Group's Pensions Division despite upward pressure from third party costs such as professional indemnity insurance and regulatory charges.

PROFITS

The Group recorded an operating profit of £184,000 (2009: £140,000) after charging non-recurring costs arising from the merger of the National brands amounting to £164,000 (2009: £nil). Net finance costs were £55,000 (2009: £47,000) and the profit before tax for the year was £129,000 (2009: £93,000).

After a credit to tax of £161,000 (2009: £124,000), being current income tax charge of £58,000 (2009: £23,000) offset by a release of £219,000 (2009: £147,000) from the deferred tax held in respect of intangible assets arising on business combinations, the gain on the disposal of subsidiary undertakings noted above of £1,236,000, a £15,000 gain (2009: £21,000) on the fair value of a listed investment held as an available-for-sale financial asset and a charge in respect of non-controlling interest of £74,000 (2009: £63,000), the total comprehensive income for the year attributable to the equity shareholders of the Group was £1,467,000 (2009: £175,000).

The sale of the Pensions Division realised an aggregate cash consideration of some £2 million which after allowances for costs of sale and the net assets eliminated on disposal, generated a gain on disposal of £1.2 million, giving a profit after tax for the financial year of £1,526,000 (2009: £217,000).

JOINT CHIEF EXECUTIVES' REVIEW (continued)

NET ASSETS AND TOTAL EQUITY

The Group's net assets increased by £1 million to £14 million, with the total comprehensive income for the year attributable to the equity shareholders of the Group of £1,467,000 being offset by the dividend payments amounting to £409,000 and the movements in the share-based payment reserve and non-controllable interest of £45,000 (2009: £176,000) and £16,000 (2009: £17,000 decrease) respectively.

CASH FLOW, CASH BALANCES AND TREASURY

Cash at bank increased by £571,000 to £13.9 million, with cash generated by operations of £1.62 million (2009: £1.85 million) utilised to pay £1.8 million in scheduled instalments of the facility from LV= which commenced in May 2010, payments in relation to prior period acquisitions of £144,000 and dividends of £409,000, along with other items highlighted in the Consolidated Statement of Cash Flows set out on page 26.

In past years a policy of placing a proportion of the Group's cash resources on short-term (typically three months or less) deposit yielded positive levels of finance income. The current policy of holding cash resources in a small number of UK clearing institutions on overnight or seven day notice periods was introduced in 2008, in order to protect the Group from potential credit risk arising either from the nature of the counterparty or by exposure to an excessively long term, and has been maintained during the period since. This reflected the ongoing uncertainty in the UK banking sector and also made funds readily available to meet regulatory capital requirements and to take advantage of investment opportunities. This policy is currently under review and a cautious policy of extending the period of the Group's cash holdings will be considered in the forthcoming months.

As stated in the 2009 Review and in note 17 to the financial statements, repayments of the Group's trade facility with LV= commenced in May 2010 and will continue at six monthly intervals until the expiry of the facility in May 2012. The total amount outstanding on the facility as at 31 December 2010 amounted to £2.7 million (2009: £4.5 million) of which £1.8 million falls due for payment in 2011 (2009: £1.8 million in 2010).

LIGHTHOUSECAPITAL

Good progress has been made during the past year and in excess of £170 million had been invested to 31 December 2010 (2009: £90 million) through the fund management groups linked to the LighthouseCapital programme, mainly through the National and Specialist Services segments.

Portfolios are risk-graded, diversified and professionally managed on an outsourced basis – by F&C Investments, Seven Investment Management, LV= Asset Management, Premier Asset Management and Principal Investment Management – and regularly rebalanced. The process is continuing to develop greater clarity, understanding and satisfaction among clients, as funds are performing in line with their expectations.

The number of advisers adopting the LighthouseCapital process as core to their business model continues to increase and we anticipate further significant growth during 2011 and beyond.

RETAIL DISTRIBUTION IMPLEMENTATION PLAN (RDIP)

The RDR rules have, as expected, defined the qualification requirement for all advisers classed in regulatory terms as Independent or Restricted at QCA Level 4 from 1 January, 2013. To date 73 per cent. of the Group's advisers are qualified or are uplifting their qualifications through defined courses of study which will lead to the new benchmark qualification being achieved prior to the RDR implementation date.

JOINT CHIEF EXECUTIVES' REVIEW (continued)

Of the remaining 27 per cent. the majority are indicating they will shortly enrol in a course of study whilst a minority have indicated they will not be sitting the examinations and will therefore be retiring from advising clients prior to the deadline. The Group is proactively guiding and supporting all of its advisers through the examination process and assisting the move to new business models following the requirement to separate adviser remuneration from the investment product charges applicable from 1 January 2013.

The majority of clients served by those advisers who retire are likely to remain advised by the Group, whilst a number of the advisers concerned are likely to have other roles. The Group will continue to provide structured learning sessions and is fully engaged with the professional bodies with a view to assisting advisers to take and pass the necessary exams. Study assistance from major product providers has been procured and the Group will be encouraging advisers throughout this period. A comfortable majority of the current adviser base should meet or exceed the new qualification standards.

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

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

THE FUTURE

The Group's deepening and expanding relationships with affinity groups which include trade unions, major employers and professional connections, together with an increasingly recognised strong industry positioning, provide a solid base for future development. The skills the Group's advisers deploy, particularly in the National segment, will be in demand as those communities it serves (particularly in the public sector) go through substantive re-organisations, with the inevitable downsizing, which will require considerable financial guidance from the Group and its advisers, at individual client level.

The Group is cognisant of the wider substantive regulatory changes evolving in the UK, which will bring forward a new regulatory framework, and also of European directives, both of which will impact the industry. The Group will continue its active participation in various industry forums to ensure that, where possible, proposed changes will be positive for consumers and the advisory community alike.

The drive towards greater professionalism within the advice industry through increased qualifications and greater segregation between advice and adviser remuneration will lead to an enhanced reputation for the adviser community and the underlying value of advice. Together with the Group's existing scale, profile and underlying financial strength, this augers well for the coming year and beyond.

Allan Rosengren and Malcolm Streatfield
Joint Chief Executives

23 March 2011

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REPORT OF THE DIRECTORS

The directors present their annual report and financial statements for the year ended 31 December 2010.

RESULTS AND DIVIDENDS

Earnings before depreciation, amortisation, non-recurring items, interest and tax were £1,321,000 (2009: £1,081,000), with a profit after tax but before non-controlling interests of £1,526,000 (2009: £217,000).

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 £153,000, being 0.12p per share (2009: two interim dividends of £256,000 or 0.2p each per share, in aggregate 0.4p per share, including 0.1p in respect of prior years) and a final dividend of £306,000 or 0.24p per share (2009: £nil) have been declared in respect of the financial year ended 31 December 2010.

The interim dividend was paid in October 2010 and the final dividend will, subject to approval at the forthcoming Annual General Meeting, be paid on 30 June 2011 to shareholders on the register as at 10 June 2011.

The total dividends recognised in 2010 were therefore £409,000 (2009: £255,000).

PRINCIPAL ACTIVITY

The principal activity of the Group for the year was the provision of regulatory authorisation and related assistance to Independent Financial Advisers operating from locations across the UK.

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

- National, under the Lighthouse Financial Advice brand which incorporates those advisers formerly managed under the LighthouseTemple and LighthouseGP brands. The advisers in this segment are all self-employed;
- Network, under the LighthouseXpress, LighthouseWealth, LighthouseFSAS and Falcon Group brands. All the advisers in this segment are self-employed. LighthouseXpress and Falcon Group are to be combined under a new regulatory brand – Lighthouse Advisory Services (formerly known as LighthouseXpress) – by 31 March 2011. LighthouseFSAS will continue to operate under that brand; and
- Specialist Services, under the LighthouseCarrwood and Lighthouse Group Employee Benefits brands. All of the advisers in this segment are employed.

The Group's City Trustees and City Pensions businesses, which administered SIPP and SSAS pension schemes, were disposed of in August 2010.

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

REVIEW OF BUSINESS

The Group's Statement of Comprehensive Income for the year is set out on page 22.

Detailed commentary on the Group's trading during the year is included within the Chairman's Statement and Joint Chief Executives' Review set out on pages 3 to 6 and 7 to 10 respectively.

DISPOSAL OF SUBSIDIARY UNDERTAKINGS

On 9 August 2010 the Company disposed of its wholly owned subsidiary undertakings, City Pensions Limited and City Trustees Limited, which administered SIPP and SSAS schemes on behalf of Group customers, to Mattioli Woods plc. The disposal generated gross cash consideration of £2.14m (£1.85m excluding inter company balance reimbursement), which was paid on completion, and a profit on disposal of £1.24 million.

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Competitive and business risks

These comprise:

- adverse changes in the general economic environment and, more specifically, in the market for the provision of retail financial services to UK consumers within which the Group operates;
- movements in the UK retail financial products market place away from the "whole of market" solutions offered by the Group towards more restricted advice models;
- movements in the UK retail financial products market place away from an up-front commission basis of remuneration for IFAs to models based on prior agreement of total charges payable by customers (including those levied by providers);
- the increasing use of technology which could enable UK consumers to procure retail financial products direct from the manufacturer at "wholesale" prices (commonly called factory gate pricing);
- aggressive price competition from other providers of IFA network or aggregated term services;
- increases in the scale of regulation imposed by UK and European governments; and
- inflationary impacts on the operating cost base of the Group.

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

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

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

Regulatory risks

The provision of financial advice (including in respect of mortgages and protection products) is regulated by the Financial Services Authority (FSA). The Group has always sought to instil a compliant culture within its procedures so as to govern the activity of its employees and self-employed advisers, ensuring that behaviour is in line with best practice and should be capable of being justified with hindsight. The conscious development of this culture has resulted in the Group never having suffered significant criticism or any sanction by any regulating authority since the foundation of its component businesses up to 27 years ago.

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.

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REPORT OF THE DIRECTORS (continued)

Financial risks

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

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

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

FUTURE DEVELOPMENTS

As noted in the Joint Chief Executives' Review, the gathering of funds under the LighthouseCapital banner has continued to develop with cumulative monies invested with the dedicated fund managers now exceeding £170 million since its launch in 2008. This has enabled the Group and its advisers to significantly increase their joint influence over client investments. The resulting boost in recurring revenues will increase the value of the IFA's own business, and in parallel will reinforce the financial strength of the Group. This strategy also accords with the tenor of the Retail Distribution Review.

CHARITABLE DONATIONS

During the period, the Group donated £6,250 to charitable organisations (2009: £550) including amounts raised in charitable activities at conferences.

DISABLED EMPLOYEES

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

EMPLOYEES

Details of the number of employees and their related costs are set out in note 4 to the Financial Statements and, in the case of the Directors of the Company, within this report and the Directors' Remuneration Report set out on pages 17 to 19.

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

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

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

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

REPORT OF THE DIRECTORS (continued)

DIRECTORS

The directors of the Company who held office throughout the year were as follows:
D Hickey
A Rosengren
M Streatfield
P Smith
M Ross
R Last
A Scott-Barrett

In accordance with the Articles of Association, M Streatfield and P Smith retire from office at the forthcoming Annual General Meeting and will offer themselves for re-election. Information in respect of directors' interests is disclosed in the Directors' Remuneration report on pages 17 to 19.

SUBSTANTIAL SHAREHOLDINGS

As at 3 March 2011 the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of holder	Number	%
Mr. Allan Rosengren *	18,807,324	14.73%
Liverpool Victoria Financial Advice Services Limited	8,353,706	6.54%
Friends Provident Life and Pensions Limited	7,497,466	5.87%
Southern Rock Insurance Company, Mr. Arron Banks and Mr. Paul Chase-Gardener	6,932,745	5.43%
Mr. Julian Telling	6,568,908	5.14%
Mr Arthur Lancaster & Boston Trust Company Ltd	6,470,588	5.07%
Mr David Hickey **	5,161,722	4.04%
AEGON UK plc	4,487,689	3.51%

* Includes 1,219,924 Lighthouse Shares which Allan Rosengren has a beneficial interest in through his Self-Invested Personal Pension Plan and Allan Rosengren and Julian Telling, a former director of Sumus plc, are the sole beneficiaries of the Falcon Retirement Benefits Scheme which hold 470,000 ordinary shares in Lighthouse Group plc as at 3 March 2011. These shares, as yet, have not been allocated.

** Includes 1,891,350 Lighthouse Shares which David Hickey has a beneficial interest in through his Self-Invested Personal Pension Plan as of 3 March 2011.

SUPPLIER PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts and abide by the terms of payment. On average, the Group's trade creditors at 31 December 2010 represented 28 days' purchases (2009: 21 days' purchases). The Company's creditor payment period was nil days (2009: nil days) since the Company has no trading activities.

FINANCIAL INSTRUMENTS

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

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Joint Chief Executives' Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Consolidated Statement of Comprehensive Income, the Group Statement of Financial Position and the Consolidated Statement of Cash Flows on pages 22, 25 and 26 respectively.

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REPORT OF THE DIRECTORS (continued)

In addition note 19 on risk management includes the Group's and the Company's objectives, policies and processes for managing their capital, their financial risk management objectives, details of their financial instruments and their exposures to credit risk and liquidity.

The Group has considerable financial resources with some £14 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants and has long-established relationships with its clients, advisers and providers. In addition all of its regulated subsidiary entities had a surplus of eligible assets over their minimum capital requirements for regulatory purposes. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

ENVIRONMENT

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

CORPORATE GOVERNANCE

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

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

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

REPORT OF THE DIRECTORS (continued)

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

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

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

INTERNAL CONTROL

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

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

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

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

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

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

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

In 2009 the Board appointed an external firm of Chartered Accountants, to undertake the role of internal auditor to the Group. The internal auditor reports directly to the Audit Committee. This has further enhanced the system of internal control operated by the Group.

AUDITOR

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

BY ORDER OF THE BOARD

M Ross
Company Secretary

23 March 2011

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DIRECTORS' REMUNERATION REPORT

COMPOSITION OF THE REMUNERATION COMMITTEE

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

A Scott-Barrett (Chairman)
R Last

THE DIRECTORS' REMUNERATION REPORT REGULATIONS 2002

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

REMUNERATION POLICY

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

REMUNERATION PACKAGE

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

- The base salaries of the executive directors are set at levels considered to be appropriate when they enter into service agreements with the Group. The base salaries are reviewed by the Remuneration Committee annually and any increases are awarded having regard to performance and salary levels in comparable organisations.

- The targets for bonus payments are set by the Remuneration Committee to balance the short and longer term objectives. Superior performance is encouraged by providing challenging performance goals with reference to the Group's annual budgets and strategic objectives.

- The Group incorporates an allowance for contributions to money purchase pension schemes within the overall remuneration package. Each director has the option to convert this to payment of salary in lieu of this. Death in service and critical illness cover is also provided for some directors.

- The Company has established approved and unapproved share option schemes, in which the executive directors may participate.

CONTRACTS OF SERVICE AND TERMS OF ENGAGEMENT

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

DIRECTORS' FEES

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

DIRECTORS' REMUNERATION REPORT (continued)

DIRECTORS' EMOLUMENTS

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

EXECUTIVE DIRECTORS

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

2009	D Hickey £'000	A Rosengren £'000	M Streatfield £'000	P Smith £'000	M Ross (appointed 20 October 2009) £'000	P Grigg (to 23 January 2009) £'000
Salary & fees	174	172	190	149	20	13
Benefits	-	2	-	-	-	-
Bonus	-	-	-	-	-	-
Value of shares allocated from EBT	404	-	174	-	-	-
Total excluding pensions	578	174	364	149	20	13
Pension	-	18	-	-	-	-
Total emoluments 2009	578	192	364	149	20	13

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

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

NON-EXECUTIVE DIRECTORS

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

2009	R Last £'000	A Scott-Barrett £'000
Salary & fees being total emoluments 2009	24	24

DIRECTORS' REMUNERATION REPORT (continued)

INTERESTS IN OPTIONS

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

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

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

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

The market price of the Company's shares on 31 December 2010 was 7.75 pence per share and the highest and lowest share prices during the year were 10.5 pence and 6.75 pence respectively. No options have been exercised by the directors during the year.

DIRECTORS' INTERESTS

DIRECTOR	2010 No. of ordinary shares of 1p each	2009 No. of ordinary shares of 1p each
D Hickey	**5,161,722**	5,161,722
R Last	**812,500**	812,500
P Smith	**217,500**	217,500
A Rosengren	**18,807,324**	18,807,324
A Scott-Barrett	**280,000**	280,000
M Streatfield	**2,612,063**	2,145,397

The directors who held office at 31 December 2010 had beneficial interests in the ordinary share capital of the Company at 31 December 2010 as set out opposite according to the register of directors' interests. M Ross had no beneficial interest in the ordinary share capital of the Company at 31 December 2010 or at 31 December 2009.

As part of the holdings shown opposite, Messrs. D Hickey, A Rosengren and M Streatfield had beneficial interests in 1,891,350, 1,219,294 and 1,168,615 ordinary shares respectively held in their Self-Invested Personal Pension Plans.

A Scott-Barrett
Chairman, Remuneration Committee

23 March 2011

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

The directors are responsible for preparing the Annual Report and the Group and parent company 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 have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the Company. The directors have also decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Services Authority in relation to those matters.

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.

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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 2010 set out on pages 22 to 64. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 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;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in 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: Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Murray Alexander Raisbeck
(Senior Statutory Auditor)

for and on behalf of

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

23 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 (restated) £'000
Revenue	3	63,125	60,738
Cost of sales	2	(47,368)	(44,955)
Gross profit		15,757	15,783
Administrative expenses			
Other operating expenses	2	(14,436)	(14,702)
Earnings before interest, tax, depreciation, amortisation and non-recurring items		1,321	1,081
Non-recurring operating expenses	5	(164)	-
Total operating expenses		(14,600)	(14,702)
Impairment charge on goodwill and intangibles	11	-	-
Depreciation and amortisation	5	(973)	(941)
Total administrative expenses		(15,573)	(15,643)
Operating profit	5	184	140
Finance revenue	6	64	70
Finance costs	6	(119)	(117)
Profit before taxation		129	93
Tax credit	7	161	124
Gain on disposal of subsidiary undertakings	14	1,236	-
Profit for the year		1,526	217
Other comprehensive income:			
Gain in fair value of available-for-sale financial asset	13	15	21
Total comprehensive income for the year		1,541	238
Profit for the year attributable to:			
Equity holders of the parent		1,452	154
Non-controlling interest		74	63
		1,526	217
Total comprehensive income attributable to:			
Equity holders of the parent		1,467	175
Non-controlling interest		74	63
		1,541	238
Basic earnings per share	8	1.14p	0.12p
Diluted earnings per share	8	1.13p	0.11p

All activities are classed as continuing.

The amounts reported for cost of sales and administrative expenses for 2009 have been increased and decreased by £1,530,000 respectively from those previously reported. There was no other impact on the results as previously reported. Further details are given in note 2.
The notes on pages 28 to 64 form an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium account	Merger reserve	Special non-distributable reserve arising from reduction in share premium	Reserves arising from share-based payments	Retained earnings	Total attributable to equity shareholders	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2010	**1,277**	**-**	**-**	**1,999**	**874**	**8,601**	**12,751**	**90**	**12,841**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,452**	**1,452**	**74**	**1,526**
Increase in fair value of available-for-sale financial asset (note 13)	**-**	**-**	**-**	**-**	**-**	**15**	**15**	**-**	**15**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**1,467**	**1,467**	**74**	**1,541**
Share-based payment	**-**	**-**	**-**	**-**	**45**	**-**	**45**	**-**	**45**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(409)**	**(409)**	**(58)**	**(467)**
At 31 December 2010	**1,277**	**-**	**-**	**1,999**	**919**	**9,659**	**13,854**	**106**	**13,960**
At 1 January 2009	1,277	5,696	2,785	1,999	2,169	(1,271)	12,655	107	12,762
Profit for the year	-	-	-	-	-	154	154	63	217
Increase in fair value of available-for-sale financial asset (note 13)	-	-	-	-	-	21	21	-	21
Total comprehensive income for the year	-	-	-	-	-	175	175	63	238
Transfer on irrevocable appointment of shares previously held within the EBT (note 21, 22)	-	-	-	-	(1,471)	1,471	-	-	-
Bonus issue (note 22)	3,301	-	(3,301)	-	-	-	-	-	-
Cancellation of bonus issue (note 22)	(3,301)	-	-	-	-	3,301	-	-	-
Re-balancing of merger reserve (note 22)	-	-	516	-	-	(516)	-	-	-
Reduction in share premium account (note 22)	-	(5,696)	-	-	-	5,696	-	-	-
Share-based payment	-	-	-	-	176	-	176	-	176
Dividends paid	-	-	-	-	-	(255)	(255)	(80)	(335)
At 31 December 2009	1,277	-	-	1,999	874	8,601	12,751	90	12,841

The notes on pages 28 to 64 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Special non-distributable reserve arising from reduction in share premium £'000	Reserves arising from share-based payments £'000	Retained earnings £'000	Total £'000
At 1 January 2010	**1,277**	**-**	**-**	**90**	**518**	**9,935**	**11,820**
Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (note 13)	**-**	**-**	**-**	**-**	**45**	**-**	**45**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**670**	**670**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(409)**	**(409)**
At 31 December 2010	**1,277**	**-**	**-**	**90**	**563**	**10,196**	**12,126**
At 1 January 2009	1,277	5,696	3,301	90	1,813	(102)	12,075
Equity contribution to subsidiary undertaking pursuant to IFRIC 8 (note 13)	-	-	-	-	894	-	894
Total comprehensive income for the year	-	-	-	-	-	(894)	(894)
Transfer on irrevocable appointment of shares previously held within the EBT	-	-	-	-	(2,189)	2,189	-
Bonus issue (note 22)	3,301	-	(3,301)	-	-	-	-
Cancellation of bonus issue (note 22)	(3,301)	-	-	-	-	3,301	-
Reduction in share premium account (note 22)	-	(5,696)	-	-	-	5,696	-
Dividends paid	-	-	-	-	-	(255)	(255)
At 31 December 2009	1,277	-	-	90	518	9,935	11,820

The notes on pages 28 to 64 form an integral part of these financial statements.

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STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2010

		Group		Company	
	Note	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Assets					
Non-current assets					
Intangible assets	**11**	**11,228**	12,034	**-**	-
Property, plant and equipment	**12**	**202**	274	**-**	-
Available-for-sale investments	**13**	**135**	120	**-**	-
Investments in subsidiaries	**13**	**-**	-	**7,716**	7,716
		11,565	12,428	**7,716**	7,716
Current assets					
Trade and other receivables	**15**	**7,724**	8,274	**4,410**	4,104
Cash and cash equivalents	**16**	**13,924**	13,353	-	-
		21,648	21,627	**4,410**	4,104
Total assets		**33,213**	34,055	**12,126**	11,820
Liabilities					
Current liabilities					
Trade and other payables	**17**	**10,198**	10,515	**-**	-
Provisions	**18**	**4,246**	2,811	**-**	-
		14,444	13,326	**-**	-
Non-current liabilities					
Trade and other payables	**17**	**912**	2,856	**-**	-
Deferred tax liabilities	**7**	**1,366**	1,585	**-**	-
Provisions	**18**	**2,531**	3,447	**-**	-
		4,809	7,888	**-**	-
Total liabilities		**19,253**	21,214	**-**	-
Net assets		**13,960**	12,841	**12,126**	11,820
Capital and reserves					
Called up share capital	**20**	**1,277**	1,277	**1,277**	1,277
Special non-distributable reserve	**22**	**1,999**	1,999	**90**	90
Other reserves - share-based payments		**919**	874	**563**	518
Retained earnings		**9,659**	8,601	**10,196**	9,935
Total equity attributable to equity holders of the Company		**13,854**	12,751	**12,126**	11,820
Non-controlling interest		**106**	90	**-**	-
Total equity		**13,960**	12,841	**12,126**	11,820

The financial statements on pages 22 to 64 were approved by the Board on 23 March 2011 and signed on its behalf by:

D Hickey, Director
P Smith, Director

The notes on pages 28 to 64 form an integral part of these financial statements.
Company registered number 04042743

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
Operating activities			
Group profit before tax for the year		**129**	93
Adjustments to reconcile profit for the year to net cash inflow from operating activities			
Finance revenues		**(64)**	(70)
Finance costs		**119**	117
Loss on disposal of property, plant and equipment		**2**	5
Depreciation of property, plant and equipment		**200**	168
Amortisation of intangible assets		**773**	773
Share-based payments		**45**	176
Change in trade and other receivables		**270**	(3,028)
Change in trade and other payables		**(128)**	93
Change in provisions		**269**	3,520
Cash generated from operations		**1,615**	1,847
Finance costs paid		**(121)**	(127)
Income taxes received/(paid)		**102**	(150)
Net cash inflow from operating activities		**1,596**	1,570
Investing activities			
Payments to acquire trade and certain assets under business combination		**(144)**	(180)
Proceeds from disposal of subsidiary undertakings net of cash disposed of	**14**	**1,452**	-
Purchase of property, plant and equipment		**(130)**	(61)
Finance revenues received		**64**	70
Net cash inflow/(outflow) from investing activities		**1,242**	(171)
Financing activities			
Repayments of trade facility		**(1,800)**	-
Dividends paid to equity shareholders		**(409)**	(255)
Dividends paid to non-controlling interest		**(58)**	(80)
Net cash outflow from financing activities		**(2,267)**	(335)
Increase in cash and cash equivalents		**571**	1,064
Cash and cash equivalents at the beginning of the year		**13,353**	12,289
Cash and cash equivalents at the year end	**16**	**13,924**	13,353

The notes on pages 28 to 64 form an integral part of these financial statements.

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COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
Operating activities			
Profit/(loss) before tax for the year		**670**	(894)
Adjustments to reconcile profit/(loss) for the year to net cash (outflow)/inflow from operating activities			
Change in other receivables		**(306)**	255
Profit on disposal of subsidiary undertakings	**14**	**(1,584)**	-
Impairment of investments	**13**	**45**	894
Net cash (outflow)/inflow from operating activities		**(1,175)**	255
Investing activities			
Proceeds from disposal of subsidiary undertakings		**1,584**	-
Net cash inflow from investing activities		**1,584**	-
Financing activities			
Dividends paid to equity shareholders		**(409)**	(255)
Net cash outflow from financing activities		**(409)**	(255)
Increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the year end		**-**	-

The notes on pages 28 to 64 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 were authorised for issue by the Board of directors on 23 March 2011 and the balance sheets were signed on the Board's behalf by David Hickey and Peter Smith. Lighthouse Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Alternative Investment Market.

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

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

2. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow set out the material policies which have been applied in preparing the financial statements of the Group and Company for the year ended 31 December 2010. The Group and Company financial statements are presented in sterling, which is the Group's functional currency, and are rounded to the nearest £'000.

Change in basis of preparation of Consolidated Statement of Comprehensive Income

The allocation of the staff costs of employed advisers within the Consolidated Statement of Comprehensive Income has been changed from that applied in prior years so as to include such costs within cost of sales rather than as administrative expenses. This is to more fairly reflect the origin of such costs and to improve the comparability of the Group's results. The effect of this change in allocation is to increase cost of sales and reduce administrative expenses by £1,530,000 from those previously reported upon for the year ended 31 December 2009 and by £1,390,000 in the results for the year ended 31 December 2010 as set out on page 22, and there was no other effect on any results, assets, liabilities, reserves or cashflows as previously reported.

Standards and interpretations effective in 2010

The following changes in financial reporting and accounting standards have come into effect in 2010:

- **IFRS 3 Business Combinations (2008)** was issued in January 2008 and was effective for business combinations arising on or after 1 July 2009. Under the revised IFRS 3 business combinations are accounted for 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.

  Acquisitions on or after 1 July 2009

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

When the excess is negative, a bargain purchase gain is recorded immediately in the Consolidated Statement of Comprehensive Income. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the Consolidated Statement of Comprehensive Income.

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

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

Acquisitions between 1 January 2006 and 1 July 2009
For acquisitions between 1 January 2006 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. If the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

As permitted by IFRS 3 Business Combinations (2008) the accounting previously employed for business combinations between 1 January 2006 and 1 July 2009 has not been restated.

Acquisitions prior to 1 January 2004 (date of transition to IFRs)
As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, being UK GAAP.

- **IAS 27 Consolidated and Separate Financial Statements (2008)** was issued in December 2009 and was effective from 1 July 2009. The Group has applied IAS 7 since that date in accounting for acquisitions of non-controlling interests. The change in accounting policy has not been applied retrospectively as permitted by IAS 27.

  Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets or liabilities of the subsidiary.

  Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets or liabilities acquired at the date of the transaction.

Critical estimates and assumptions

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

- going concern – see below
- identification of principal reportable operating segments – see below and note 3
- utilisation of tax losses – note 7
- measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets – note 11
- accounting for business combinations – note 14
- measurement of the recoverable amount of trade receivables – note 15
- measurement of potential clawbacks and complaints by customers – notes 15 and 18
- valuation of financial instruments - see below
- measurement of share based payments – note 21.

Provision for clawback of indemnity commissions

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

Complaints provision

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

Bad debt provision

A small number of advisers are indebted to the Group. This debt ordinarily arises from clawbacks or complaint insurance excesses applied to the adviser's account. Each one of these is reviewed regularly in conjunction with the amounts retained from advisers to cover potential clawbacks and provision made where recovery is deemed necessary.

Goodwill and intangible assets

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

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

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

Basis of consolidation

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Reviews contained within the Chairman's Statement, Joint Chief Executives' Review and the Report of the Directors within the Annual Report. The financial position of the Group, its cash flows and its liquidity position are described in the Financial Commentary section of the Joint Chief Executives' Review. In addition note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources with some £14 million of cash at bank and no bank debt or other financial liabilities with any restrictive or financial covenants and has long established relationship with its clients, advisers and providers. In addition all of its regulated subsidiary entities had a surplus of eligible assets over their minimum capital requirements for regulatory purposes. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received, is stated net of value added tax and is earned within the United Kingdom as commissions, fees and administration charges.

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

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

Fees for financial advice, administration charges and other services are recognised as the services are provided. Interest income represents bank interest receivable on the Group's cash balances and is recognised as it is earned over the term of the deposit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Segmental reporting

Under IFRS 8, Operating Segments the Group is required to disclose in its financial statements segment information in respect of its operations that enables users of those financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which the entity operates. Under the management approach introduced by IFRS 8, segment disclosures are required to be based on the components of the Group that management monitors in making decisions about operating matters including evaluation of performance and allocation of capital amongst other factors.

The Board of Lighthouse Group plc 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.

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

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

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

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

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

Business combinations and goodwill

Goodwill recognised under UK GAAP prior to the date of transition to IFRS (1 January 2006) is stated at net book value as at the transition date. Business combinations between 1 January 2006 and 1 July 2009 were accounted for under IFRS 3 using the purchase method. Any excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Consolidated Statement of Financial Position as goodwill. Goodwill at the transition date and any that arises on acquisitions is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the Consolidated Statement of Comprehensive Income.

Business combinations arising after 1 July 2009 are accounted for under IFRS 3 Business Combinations (2008) using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

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

Investment in group undertakings

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

Intangible assets

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

Intangibles with a finite life have no residual value and are amortised on a straight line basis over their expected useful economic lives as follows:
- Commissions processing software and development — 5 years
- Acquired customer relationships — 9-13 years
- Acquired Appointed Representative contracts — 10-13 years

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (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 to its residual value based on prices prevailing at the balance sheet date, on a straight-line basis as follows:

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

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

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

Impairment of assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Financial instruments

Non-derivative financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

Accounting for finance income and expenses is discussed on pages 35 and 36 of the financial statements.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cashflows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

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

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

Pension schemes

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

Finance income and expenses

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except where it relates to an item recognised directly in equity, in which case the related tax is also recognised directly in equity. Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

Non-recurring items

The Group presents as non-recurring items within the relevant income or expenditure category on the face of the Statement of Comprehensive Income, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

Development costs

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

In accordance with IFRS 2, the cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company.

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

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

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

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

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

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

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

Leases

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

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

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

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

International Accounting Standards (IAS / IFRS)		Effective date
IFRS 7	Disclosures: transfers of financial assets	1 July 2011
IAS 12	Deferred Tax: Recovery of underlying assets	1 January 2012
IFRS 9	Financial Instruments	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

International Financial Reporting Interpretations Committee (IFRIC)		
IAS 24	Related Party Disclosures	1 January 2011
IFRS 7	Financial Instruments: Disclosures	1 January 2011
IAS 1	Presentation of Financial Statements: Presentation of SOCE	1 January 2011

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

3. REVENUE AND SEGMENT REPORTING

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Segment information is as follows:

Year ended 31 December 2010	**National**	**Network**	**Specialist Services**	**Other Segments**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total revenues	**16,229**	**62,583**	**4,117**	**-**	**82,929**
Less inter-segment revenues	**-**	**(19,804)**	**-**	**-**	**(19,804)**
External revenues	**16,229**	**42,779**	**4,117**	**-**	**63,125**
Cost of sales and other operating expenses	**(14,723)**	**(40,998)**	**(4,042)**	**(2,041)**	**(61,804)**
Earnings before interest, tax, depreciation and amortisation	**1,506**	**1,781**	**75**	**(2,041)**	**1,321**
Non-recurring operating expenses					**(164)**
Depreciation and amortisation					**(973)**
Operating profit					**184**
Finance revenues					**64**
Finance costs					**(119)**
Profit for the year					**129**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Year ended 31 December 2008 (as restated)	National £'000	Network £'000	Specialist Services £'000	Other Segments £'000	Total £'000
Total revenues	13,075	54,754	5,161	-	72,990
Less inter-segment revenues	-	(18,597)	-	-	(18,597)
External revenues	13,075	36,157	5,161	-	54,393
Cost of sales and other operating expenses	(12,096)	(35,365)	(5,044)	(1,335)	(53,840)
Earnings before interest, tax, depreciation and amortisation	979	792	117	(1,335)	553
Non-recurring operating expenses					(981)
Depreciation and amortisation					(856)
Impairment charge on goodwill and intangibles					(7,572)
Operating loss					(8,856)
Finance revenues					575
Finance costs					(213)
Loss for the year					(8,494)

Segment assets and liabilities are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

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

	2010 £'000	2009 £'000
Wages and salaries - advisers	**1,390**	1,530
Wages and salaries - other staff	**5,912**	6,053
Share-based payment	**45**	176
Social security costs	**787**	873
Other pension costs	**177**	188
	8,311	8,820

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

	Number	Number
Executive directors	**5**	4
Financial advisers	**32**	41
Administration staff	**170**	174
	207	219

Directors

	2010 £'000	2009 £'000
Base remuneration (including bonus)	**969**	768
Value of shares irrevocably appointed from EBT	**-**	578
	969	1,346
Company contributions to money purchase pension schemes	**18**	18
	987	1,364

Highest paid director

	2010 £'000	2009 £'000
Base remuneration (including bonus)	**219**	174
Value of shares irrevocably appointed from EBT	**-**	404
	219	578
Company contributions to money purchase pension schemes	**-**	-
	219	578

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

5. GROUP OPERATING PROFIT

The operating profit is stated after charging:

	2010 £'000	2009 £'000
Depreciation of property, plant and equipment – owned	**200**	168
Amortisation of intangible assets	**773**	773
Leasehold property - lease payments	**582**	571
Hire of equipment under operating leases	**57**	61
Non-recurring operating expenses (see below)	**164**	-

Auditor's remuneration

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

	2010 £'000	2009 £'000
Audit of the financial statements	**43**	43
Other fees to auditor:		
Local statutory audits for subsidiaries	**63**	63
Other fees to auditor - taxation services	**19**	19
Other fees to auditor - regulatory services	**6**	6
Other services	**10**	17
	141	148

Other services include fees of £7,000 in relation to the disposal of City Pensions Limited and City Trustees Limited and which have been treated as a cost of disposal (see note 14).

Non-recurring operating expenses

	2010 £'000	2009 £'000
Re-organisation costs on restructuring of business segments	**164**	-
	164	-

The restructuring costs in 2010 comprised redundancy and other costs arising from the merging of previously separable sub-units within the National segment (2009: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

6. FINANCE REVENUE AND EXPENSE

	2010 £'000	2009 £'000
Revenue - bank interest earned on the Group's bank deposits	**64**	70
Expense - finance expense on short-term funding	**(59)**	(46)
Expense – interest on trade facility	**(60)**	(71)
Total expense	**(119)**	(117)

7. TAXATION

(a) Analysis of charge in year

	2010 £'000	2009 £'000
Current tax:		
UK corporation tax charge at 28% (2009: 28%)	**58**	23
Deferred tax credit	**(137)**	(147)
	(79)	(124)
Prior year deferred tax credit	**(82)**	-
Tax credit on profit on ordinary activities	**(161)**	(124)

(b) Reconciliation of the total tax charge

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

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**129**	93
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	**36**	26
Effects of:		
Share-based payment charge not deductible for tax purposes	**12**	49
Expenses not deductible for tax purposes	**20**	21
IFRS 2 charge re EBT allocation	**-**	(193)
Excess of depreciation over capital allowances (2009: accelerated capital allowances)	**30**	(7)
Other permanent differences	**(30)**	21
Brought forward tax losses utilised	**(305)**	(311)
Current year losses not relieved	**158**	270
Tax credit for year	**(79)**	(124)

No tax arose on the gain on disposal of subsidiary undertakings or on the other comprehensive income during the year (2009: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

(c) Deferred tax - Group

The deferred tax balances can be analysed as follows:

	2010		2009	
	Provided £'000	**Unprovided £'000**	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and capital allowances	**-**	**(90)**	-	(34)
Trading losses	**-**	**(2,089)**	-	(2,208)
On fair value of intangible assets arising on business combination	**1,366**	**-**	1,585	-
Deferred tax liability/(asset)	**1,366**	**(2,179)**	1,585	(2,242)

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

	2010 £'000	2009 £'000
Provision at 1 January	**1,585**	1,642
Arising on intangible asset acquired as part of business combination with Godfrey Pearson Limited in 2009 (note 14)	**-**	90
Credit to Statement of Comprehensive Income during the year	**(219)**	(147)
Provision at 31 December	**1,366**	1,585

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

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

8. EARNINGS PER ORDINARY SHARE

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

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

The calculation of basic and diluted earnings per share in 2009 excludes the bonus issue referred to in note 22 (b) as those shares were only in existence for one day, were issued as a constituent part of the process for reclassifying the merger reserve and did not effectively rank for dividends at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

	2010		2009	
	Earnings	**per share amount**	Earnings	per share amount
	£'000	**Pence**	£'000	Pence
Basic earnings per share				
The basic earnings per share can be analysed as follows:				
On EBITDA *	**1,321**	**1.03p**	1,081	0.85p
Effects of:				
Non-recurring operating expenses	**(164)**	**(0.13p)**	-	-
Depreciation and amortisation	**(973)**	**(0.76p)**	(941)	(0.74p)
Net finance cost	**(55)**	**(0.04p)**	(47)	(0.04p)
Tax credit	**161**	**0.13p**	124	0.10p
Disposal of subsidiary undertakings	**1,236**	**0.97p**	-	-
Non-controlling interest	**(74)**	**(0.06p)**	(63)	(0.05p)
Profit attributable to ordinary shareholders	**1,452**	**1.14p**	154	0.12p
Dilutive effect				
Options	**-**	**(0.01p)**	-	(0.01p)
Diluted earnings per share	**1,452**	**1.13p**	154	0.11p

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

There are 8,223,710 options (2009: 17,525,419) which could potentially dilute earnings per share in the future, but were not included within the calculation of diluted loss per share as they were anti-dilutive for the periods presented.

9. DIVIDENDS PAID AND PROPOSED

Paid:

	2010	2009
	£'000	£'000
Interim dividend at 0.12p (2009: 0.2p) per share	**153**	255
Second interim dividend for 2009 at 0.2p (2009: nil p) per share	**256**	-
	409	255

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

In 2009, the Company's loss for the year was £894,000 comprising provisions against the carrying value of investments in subsidiaries none of which was dealt with in the Group result.

11. INTANGIBLE ASSETS

Group

	Goodwill £'000	Commissions processing software and development costs £'000	Acquired customer relationships £'000	Acquired Appointed Representatives and adviser contracts £'000	Total £'000
Cost					
At 1 January 2009	11,523	350	1,183	8,722	21,778
Additions – acquisitions	-	-	-	794	794
At 31 December 2009	11,523	350	1,183	9,516	22,572
Disposals (note 14)	(34)	-	-	-	(34)
At 31 December 2010	**11,489**	**350**	**1,183**	**9,516**	**22,538**
Amortisation					
At 1 January 2009	6,550	126	230	2,859	9,765
Charge for the year	-	70	132	571	773
At 31 December 2009	6,550	196	362	3,430	10,538
Charge for the year	-	70	132	571	773
Disposals (note 14)	(1)	-	-	-	(1)
At 31 December 2010	**6,549**	**266**	**494**	**4,001**	**11,310**
Net book amount					
At 31 December 2010	**4,940**	**84**	**689**	**5,515**	**11,228**
At 31 December 2009	4,973	154	821	6,086	12,034

As a result of the identification of a third operating segment – Specialist Services as outlined in note 3 above – the Group has, as required by IFRS 8, re-assessed the allocation of its operations (and the associated goodwill and intangible assets) between the now three principal operating business segments which it considers should be reported upon, each of which represents a single CGU. These are the National, Network and Specialist Services operating segments referred to previously in this Report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Accordingly the brought forward composition of the Group's goodwill and intangible assets, together with the movements during the year, have been re-allocated between the National, Network, Specialist Services and other operating segments as follows:

	Goodwill		**Other intangible assets**	
	2010	2009 Restated	**2010**	2009 Restated
	£'000	£'000	**£'000**	£'000
National segment	**1,315**	1,348	**1,311**	1,537
Network segment	**-**	-	**4,907**	5,390
Specialist Services segment	**3,625**	3,625	**-**	-
Other segments not separately reported on	**-**	-	**70**	134
	4,940	4,973	**6,288**	7,061

The values of goodwill allocated to the Network (£5,738,000) and other segments (£215,000 2009 only) were fully amortised and impaired as at 31 December 2009 and 2010.

In the opinion of the directors and on the basis of the above, there was no further impairment provision requirement in respect of goodwill and there had been no triggering of any impairment factors that might necessitate an impairment review of the CGUs' intangible assets as at 31 December 2010.

The values disclosed in the 2009 Annual Report under the previous allocation were as follows:

	Goodwill		Other intangible assets	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
National segment	4,973	4,973	1,537	953
Network segment	-	-	5,390	5,888
Other segments not allocated	-	-	134	199
	4,973	4,973	7,061	7,040

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 2011 financial year and its forecast for financial years to 2014, taking into account the adviser recruitment and lead/revenue generation plans that have been developed for the National and Specialist Services segments. Long-term cashflows are projected from the 2014 forecast using a growth rate of 1.5% in 2015 and 2% thereafter (2009: 2.5%), being the directors' best estimate of the long-term growth rate of the UK economy. Cashflows are discounted at a real, not nominal, post-tax discount rate of 10.8% which equates to a nominal pre-tax discount rate of 15%.

The calculation of values in use is most sensitive to the assumed rate of growth in cash flows, which has been based on a cautious assessment of the impact of future external market conditions on investors' appetite for investment products, including market estimates of the likely impact of the Retail Distribution Implementation Programme ("RDIP") on future revenue and adviser levels and the discount rate which has been set on the basis of management's assessment of the risks applicable to the future cash flows of the CGU in question. In the opinion of management there is no discernable difference in the risk profile of the three CGUs and accordingly the same discount rate has been applied to the estimated future cash flows of each CGU.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

	Increase/(decrease) of value in use of		
	National	Network	Specialist Services
	£'000	£'000	£'000
A 1% increase in the post-tax discount rate applied to the estimated future cash flows	(1,920)	(774)	(368)
A 1% decrease in the post-tax discount rate applied to the estimated future cash flows	2,404	964	457
A 0.5% reduction in growth rate assumed from 2014 onwards	(1,118)	(348)	(254)
A 0.5% increase in the growth rate assumed from 2014 onwards	1,246	388	284

The sensitivity in respect of an increase or decrease of 0.5% in the future growth rate has been applied from 2014 on as in the opinion of the directors the assumed level of growth in the market for the distribution of retail financial product in the UK in the short to medium term already reflects the general level of uncertainty prevalent at the current time and the likely impact of the RDIP.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Motor vehicles	Leasehold improvements	Office & computer equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2009	11	164	1,578	1,753
Additions at cost	-	6	55	61
Acquisitions	-	-	47	47
Disposals	(11)	-	(3)	(14)
At 31 December 2009	-	170	1,677	1,847
Additions at cost	-	-	130	130
Disposals	-	-	(13)	(13)
At 31 December 2010	**-**	**170**	**1,794**	**1,964**
Depreciation				
At 1 January 2009	9	105	1,300	1,414
Provided in the year	-	18	150	168
Disposals	(9)	-	-	(9)
At 31 December 2009	-	123	1,450	1,573
Provided in the year	-	35	165	200
Disposals	-	-	(11)	(11)
At 31 December 2010	**-**	**158**	**1,604**	**1,762**
Net book amount				
At 31 December 2010	**-**	**12**	**190**	**202**
At 31 December 2009	-	47	227	274

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

13. INVESTMENTS

Group	2010 £'000	2009 £'000
Fair value of listed investment at 1 January	**120**	99
Increase in fair value in period to 31 December taken to equity	**15**	21
Fair value at 31 December	**135**	120

The listed investment comprises a Level 3 financial asset (as defined in IFRS 7) and its fair value equates to its market value. No charge or credit to income tax arose on the increase or diminution in value in either 2010 or 2009.

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

Company – investments in subsidiary undertakings	2010 £'000	2009 £'000
Cost at 1 January	**19,840**	18,946
Equity contribution to subsidiary undertaking in respect of share-based payments pursuant to IFRIC 8	**45**	894
Disposal of subsidiaries (see below)	**(475)**	-
Cost at 31 December	**19,410**	19,840
Provision for impairment at 1 January	**(12,124)**	(11,230)
Provision for impairment made in the year	**(45)**	(894)
Released on disposal of subsidiaries (see below)	**475**	-
Provision for impairment at 31 December	**(11,694)**	(12,124)
Net book value	**7,716**	7,716

On 9 August 2010 the Company disposed of its wholly owned subsidiaries, City Trustees Limited and City Pensions Limited. The elimination of these companies did not affect the carrying value of the Company's investment in its subsidiaries as the original cost of investment (£475,000) had been fully impaired in prior periods. Further details of the disposals are set out in note 14.

In October 2010 the Company acquired the remaining 15% of the issued share capital of Financial Synergies Limited that it did not already hold for a nominal sum of £1, being the net assets at that date. The company did not trade during the year ended 31 December 2010 and an application was made to the Registrar of Companies to strike the company off. The company was dissolved on 15 February 2011.

On 11 November 2010 the Company acquired the whole of the issued share capital of Lighthouse Direct Limited for a total consideration of £2 in cash. That company did not trade to a material extent since its incorporation in 2009 and had minimal net assets both at the date of acquisition and at 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Subsidiary undertakings

The principal subsidiary undertakings are:

Name of company	Nature of business	% of issued shares held and voting rights
LighthouseWealth Limited	Provision of Independent Financial Advice	100%
Lighthouse Corporate Services Limited	Provision of business services	100%
LighthouseCarrwood Limited	Provision of Independent Financial Advice	100%
LighthouseXpress Limited	Provision of regulatory authorisation and business services	100%
Lighthouse Financial Advice Limited (formerly LighthouseTemple Limited)	Provision of Independent Financial Advice	100%
Sumus Limited	Provision of business services	100%
The Falcon Group Plc (see below)	Provision of regulatory authorisation and business services	100%
Financial Services Advice & Support Limited (see below)	Provision of regulatory authorisation and business services	100%
LighthouseGP Limited	Provision of Independent Financial Advice	100%
Deverill Black & Company Limited (see below)	Provision of Independent Financial Advice	50.1%

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

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

There are no restrictions on the ability of any subsidiary to transfer funds to the Company to repay loans or advances or, in the case of regulated entities, to pay cash dividends, other than those amounts required to maintain the regulatory capital of those companies. The distributable reserves of Financial Services Advice & Support Limited were not so restricted as its regulatory surplus exceeds its distributable reserves, whilst the distributable reserves of LighthouseXpress Limited and The Falcon Group Plc exceeded those companies' regulatory surpluses at 31 December 2010 by £1,550,000 and £288,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

14. BUSINESS COMBINATIONS

Disposal of subsidiary undertakings

On 9 August 2010 the Company sold the whole of the issued share capital of its subsidiary companies, City Pensions Limited and City Trustees Limited, to Mattioli Woods plc. The transaction resulted in a gain on disposal of £1,236,000 being recorded as follows:

	£'000	£'000
Gross cash proceeds		2,142
Less provision for contingent refund of consideration (see below)		(250)
Fair value of consideration		1,892
Less costs of sale		(308)
Net proceeds		1,584
Less carrying value of assets and liabilities disposed of		
Goodwill	33	
Trade and other receivables	143	
Prepayments	17	
Cash at bank	457	
Trade payables - accrued expenses	(302)	
		348
Net gain on disposal of subsidiary undertakings		1,236

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

The maximum amount refundable under the Share Purchase Agreement would be £350,000 and the directors have estimated the fair value of such refunds as £250,000 as at 31 December 2010 which sum has been provided for within Other Provisions (note 18).

The net cash impact of the disposal in the financial statements of the Group in 2010 was as follows:

	£'000
Gross cash proceeds received as above	2,142
Less cash costs of sale	(233)
	1,909
Less cash balance disposed of	(457)
Increase in cash from disposals	1,452

Acquisitions

The reported details in 2009 were in respect of the acquisition of trade and certain assets and undertakings of Godfrey Pearson Limited, details of which were disclosed in the Group's 2009 Annual Report. Under the terms of the Business Purchase Agreement dated 12 January 2009, the shareholders of Godfrey Pearson Limited are entitled to additional deferred consideration up to a maximum of £1,500,000, subject to the revenues generated by LighthouseGP Limited reaching pre-determined targets over the period to 31 December 2011.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

The directors have considered the likelihood of the revenue targets as described above being achieved and have concluded that it is not appropriate to assume, as at 31 December 2010, that any of the additional deferred consideration will become payable. Accordingly no account has been taken of the additional deferred consideration in arriving at the consideration previously included in the intangible assets calculation in 2009 (2009 : £nil).

15. TRADE AND OTHER RECEIVABLES

	Group 2010 £'000	**Company 2010 £'000**	Group 2009 £'000	Company 2009 £'000
Trade receivables	**3,627**	**-**	3,367	-
Amounts owed by Group undertakings	**-**	**4,410**	-	4,104
Other receivables	**3,170**	**-**	3,615	-
Corporation tax	**-**	**-**	120	-
Prepayments and accrued income	**927**	**-**	1,172	-
	7,724	**4,410**	8,274	4,104

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

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

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

	2010 £'000	2009 £'000
At the beginning of the year	**425**	283
Charged to the Statement of Comprehensive Income	**224**	215
Utilised during the year	**(71)**	(73)
At the end of the year	**578**	425

Amounts owed by group undertakings in the Company's balance sheet are stated net of an impairment provision of £5,194,000 (2009: £4,325,000).

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
2010	**3,627**	**1,047**	**1,403**	**381**	**579**	**111**	**106**
2009	3,367	729	1,385	414	391	126	322

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

16. CASH AND SHORT-TERM DEPOSITS

	Group 2010 £'000	Group 2009 £'000
Short-term deposits	**13,084**	12,847
Cash at bank and in hand	**840**	506
	13,924	13,353

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 one week 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 £13,924,000 (2009: £13,353,000).

17. TRADE AND OTHER PAYABLES

Current:	**Group 2010 £'000**	Group 2009 £'000
Trade payables	**6,429**	5,858
Other taxation and social security	**438**	723
Other payables	**381**	656
Deferred consideration and transaction costs	**144**	178
Accruals and deferred income	**966**	1,300
Corporation tax	**40**	-
Other financial liabilities - trade facility (secured)	**1,800**	1,800
	10,198	10,515

Included within other payables is an amount of £8,000 (2009: £8,000) in respect of unpaid pension contributions.

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

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

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

Non-current:	**Group 2010 £'000**	Group 2009 £'000
Other financial liabilities - trade facility (secured)	**900**	2,700
Deferred consideration	**12**	156
	912	2,856

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

The trade facility is with a UK financial institution and is secured solely on monies held within a specific bank account operated by the Group. The balance on that account as at 31 December 2010 was £nil (2009: £nil). The facility is repayable in three further semi-annual instalments and the outstanding balance attracts interest at 1% per annum above LIBOR, payable quarterly in arrears.

The trade facility matures as follows:

	2010 £'000	2009 £'000
In less than one year	**1,800**	1,800
In one to two years	**900**	1,800
In two to five years	**-**	900
	2,700	4,500

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

Of the deferred consideration, £144,000 (2009: £178,000) is repayable within one year, £12,000 (2009: £144,000) repayable between one and two years from the balance sheet date and £nil (2009: £12,000) after that date.

The Group has entered into commercial leases on certain properties, motor vehicles and items of equipment. These leases have a duration of between three and five years. Only the property lease agreements contain an option for renewal, and no restrictions are placed upon the lessee by entering into these leases.

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

	Group 2010 £'000	**Company 2010 £'000**	Group 2009 £'000	Company 2009 £'000
Future minimum payments due:				
Not later than one year	**458**	**-**	521	-
After one year but not more than five years	**949**	**-**	522	-
	1,407	**-**	1,043	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

18. PROVISIONS

Group	Provision for clawback of indemnity commission £'000	Complaints provision £'000	Other provisions £'000	Total £'000
At 1 January 2010				
Current	1,987	824	-	2,811
Non-current	527	2,920	-	3,447
	2,514	3,744	-	6,258
Charged to the Statement of Comprehensive Income	2,053	1,055	650	3,758
Utilised during the year	(1,702)	(1,537)	-	(3,239)
At 31 December 2010	**2,865**	**3,262**	**650**	**6,777**
Analysed as:				
Current	**1,389**	**2,857**	**-**	**4,246**
Non-current	**1,476**	**405**	**650**	**2,531**
	2,865	**3,262**	**650**	**6,777**

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 2010. The amount represents the gross obligation and where these amounts can be recovered from advisers an asset is recognised. At 31 December 2010, the gross amount recognised was £2,022,000 (2009: £1,456,000). 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. The amount represents the gross obligation and where these amounts can be recovered from advisers and insurers an asset is recognised. At 31 December 2010, the amount recognised within trade and other debtors was £2,603,000 (2009 £3,184,000).

Other provisions
Other provisions represent the directors' best estimates of amounts payable in respect of previous corporate transactions and other commercial liabilities.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

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

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

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

Concentration risk

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

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

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

Interest rate risk

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

With regard to finance revenue the Group had significant cash balances throughout the year and as at 31 December 2010. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The Company has no interest-bearing financial assets or liabilities and hence has no interest rate risk.
The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit before tax.

	Increase/decrease in interest rates	Effect on profit before tax £'000	Effect on equity £'000
For the 12 months ended 31 December 2010	**+1%**	**79**	**79**
	-1%	**(7)**	**(7)**
For the 12 months ended 31 December 2009	+1%	70	70
	-1%	(11)	(11)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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 2010 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 2010						
Trade and other payables	**5,699**	**359**	**1,347**	**900**	**-**	**8,305**
Other financial liabilities	**1,137**	**326**	**1,330**	**12**	**-**	**2,805**
	6,836	**685**	**2,677**	**912**	**-**	**11,110**
Year ended 31 December 2009						
Trade and other payables	5,036	335	2,287	2,700	-	10,358
Other financial liabilities	1,906	629	322	156	-	3,013
	6,942	964	2,609	2,856	-	13,371

Market price risk

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

Fair value of financial instruments

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

Borrowing facilities

Neither the Company nor the Group has any undrawn committed borrowing facilities available at 31 December 2010 (2009: £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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

No changes were made in the objectives, policies or processes in the year.

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

The Group has maintained throughout 2010 and 2009 and will 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.

20. SHARE CAPITAL

Ordinary shares of 1p each	**2010**		2009	
	Number	**£'000**	Number	£'000
Authorised	**200,000,000**	**2,000**	200,000,000	2,000
Allotted issued and fully paid				
At the beginning of the year	**127,700,298**	**1,277**	127,700,298	1,277
Bonus issue by way of capitalisation of merger reserve - see note 22 (b)	-	-	330,081,600	3,301
Less cancellation of shares issued pursuant to a High Court order in respect of reduction of capital - see note 22 (b)	-	-	(330,081,600)	(3,301)
At the end of the year	**127,700,298**	**1,277**	127,700,298	1,277

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

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

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2009

Number of share options at 31 December 2008	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 2009	Exercise price (p)	Exercise period
161,540	-	-	(23,078)	138,462	32.5	23/01/06 and 22/01/13
4,187,580	-	-	(629,884)	3,557,696	24.0	23/10/10 and 22/10/17
2,887,848	-	-	(370,116)	2,517,732	21.5	12/05/11 and 11/05/18
7,236,968	-	-	(1,023,078)	6,213,890		

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

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

Under the Company's Unapproved Share Option Scheme for advisers the following options were held at 31 December 2009

Number of share options at 31 December 2008	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 2009	Exercise price (p)	Exercise period
310,142	-	-	(37,504)	272,638	1.0	30/09/04 and 30/12/14
13,769	-	-	-	13,769	1.0	17/08/04 and 16/08/14
323,911	-	-	(37,504)	286,407		

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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

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

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2009

Number of share options at 31 December 2008	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 2009	Exercise price (p)	Exercise period
3,200	-	-	-	3,200	162.0	06/04/04 and 05/04/11
369,229	-	-	(20,513)	348,716	32.5	23/01/06 and 22/01/13
15,386	-	-	-	15,386	23.5	01/05/06 and 30/04/13
35,897	-	-	-	35,897	25.0	15/08/06 and 14/08/13
15,385	-	-	-	15,385	26.5	04/02/07 and 03/02/14
46,153	-	-	-	46,153	19.0	13/12/07 and 12/12/14
50,000	-	-	(50,000)	-	20.0	01/05/08 and 30/04/15
142,857	-	-	(142,857)	-	21.0	10/07/09 and 09/07/16
316,215	-	-	(32,432)	283,783	18.5	25/04/09 and 24/04/16
220,512	-	-	(50,000)	170,512	21.0	15/03/09 and 14/03/16
25,000	-	-	-	25,000	21.0	01/06/09 and 31/05/16
101,000	-	-	(6,500)	94,500	20.0	06/03/10 and 05/03/17
65,000	-	-	-	65,000	29.0	27/07/10 and 26/07/17
674,615	-	-	(200,640)	473,975	24.0	23/10/10 and 22/10/17
50,000	-	-	-	50,000	22.5	31/03/11 and 30/03/18
549,852	-	-	(43,646)	506,206	21.5	12/05/11 and 11/05/18
2,680,301	-	-	(546,588)	2,133,713		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

21. SHARE-BASED PAYMENTS

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

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

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

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

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

	2010 Number	**2010 WAEP (pence)**	2009 Number	2009 WAEP (pence)
Outstanding at 1 January	**8,634,010**	**22.61**	10,241,180	22.57
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**(253,221)**	**27.30**	(1,607,170)	22.44
Outstanding at 31 December	**8,380,789**	**22.47**	8,634,010	22.61
Exercisable 31 December	**5,355,613**	**23.01**	1,368,901	20.85

Included within the opening balance are options over 3,200 (2009: 3,200) shares that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002. These options have not subsequently been modified and therefore do not need to be accounted for in accordance with IFRS 2.

No options were granted in either 2010 or 2009.

For the share options outstanding at 31 December 2010, the weighted average remaining contractual life is 6.57 years (2009: 7.50 years). The range of exercise prices for options outstanding at 31 December 2010 was 1 pence to 32.5 pence (2009: 1 pence to 162 pence).

(c) During 2006, a revocable appointment on certain sub-trusts of 8,125,000 shares was made from the Group's Employee Benefits Trust ("EBT"). The charge arising under IFRS 2 was recognised in full in that year based upon the share price as at the date of appointment.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

In December 2009 the Trustees of the EBT irrevocably allocated 8,468,297 shares (including 343,297 acquired as a result of re-investing dividends received in previous periods) to the originally allocated beneficiaries. The remaining 271,349 shares were irrevocably allocated during 2010.

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

	2010 £'000	2009 £'000
Fair value of options	**45**	176

(e) Fair value of options granted during the year
No options were granted in either 2010 or 2009.

22. RESERVES

(a) Share premium account
On 24 June 2009 the High Court approved a petition to allow the offset of losses of the Company against the share premium account of the Company. Accordingly the share premium account was reduced by £5,696,000 to offset the accumulated losses of the Company as at 31 December 2008.

(b) Merger reserve
On 7 July 2009 the Company issued 330,081,600 new ordinary shares of 1p each at par, fully paid, by way of a capitalisation of the merger reserve previously recorded. These shares were subsequently cancelled pursuant to a High Court order dated 8 July 2009 and the nominal value of the shares so cancelled was credited to retained earnings.

The re-balancing of the merger reserve arose as a result of impairment charges made at Group level in prior years having exceeded those at the Company level.

(c) 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.

(d) EBT
The Group had an investment in its own shares amounting to £nil (2009: £nil) in respect of shares held by Nautilus Trust Company (Jersey) Limited as Trustee to the EBT (the Lighthouse Independent Financial Advisers Limited Remuneration Trust). The EBT held nil ordinary shares in the Company at 31 December 2010 (2009: 271,349). The market value of the shares held by the trust was nil (2009: £24,000). The majority of these shares were irrevocably appointed in December 2009 leaving 271,349 held within one sub-trust which have since been irrevocably appointed during 2010.

As a result of the irrevocable appointments in 2009 referred to above, £1,471,000 (Company: £2,189,000) previously charged in the Statement of Comprehensive Income and credited to the share-based payment reserve was transferred to retained earnings as a movement in equity during 2009.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

23. COMMITMENTS

Neither the Group nor the Company had any capital commitments as at 31 December 2010 (2009: £nil).

24. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2010, the Group made payments of £1,000 (2009: £nil) to Nautilus Trust (Jersey) Limited, holders of the shares in the Employee Benefit Trust referred to in note 22 (a) above, in respect of their services as trustees of the Lighthouse Independent Financial Advisers Limited Remuneration Trust.

During the year, the Group paid property rents totalling £101,000 (2009: £101,000) to Capitecs Limited, a company under the control of A Rosengren, who is a director of the Company, and J P Telling both of whom are directors of Capitecs Limited. At 31 December 2010 the amount due to Capitecs Limited was £nil (2009: £nil).

In addition during the year the Group paid property rents totalling £20,000 (2009: £20,000) in respect of a property occupied by a subsidiary company and owned by a consortium in which Capitecs Limited holds a one third interest.

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