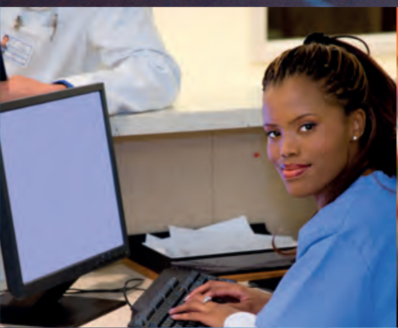
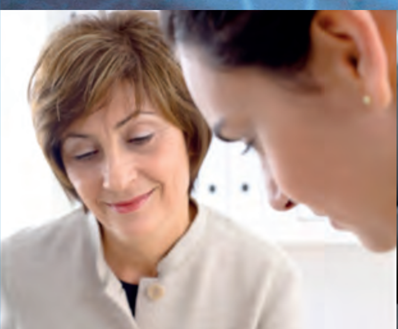
LIGHTHOUSEGROUP








REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Highlights

- EBITDA* up 27 per cent. to £2.8 million (2016: £2.2 million).
- Profit before tax up 32 per cent. to £2.5 million (2016: £1.9 million).
- Average revenue per adviser increased by 23 per cent. to a record £122,000 (2016: £99,000).
- Recurring revenue £24.8 million, or circa 48 per cent. of total revenue generated from customers (2016: £21.9 million and circa 48 per cent.).
- Net cash up 7 per cent. at £8.7 million (2016: £8.1 million).
- Basic earnings per share rose by 3 per cent. to 2.13p per ordinary share (2016: 2.07p).
- Adjusted basic earnings per share** up 34 per cent. to 1.59p per ordinary share (2016: 1.19p).

* Earnings before interest, tax, depreciation and amortisation.
** Calculated after applying standard tax charge of 19.25% (2016: 20%)
The increases set out above are in comparison with the year ended 31 December 2016 or as at that date.

Lighthouse continued to progress well during 2017, with sharply increased average adviser productivity resulting in the Group recording its highest ever EBITDA and profit before taxation at £2.8 million and £2.5 million respectively.

The Group's affinity business continues to grow, with 21 contractual arrangements in place as at 31 December 2017. Total revenues from this source reached a record level of £9.6 million and this high-margin business contributed £1.9 million to Group EBITDA. The Group continues to be seen as the leading provider of holistic financial advice to members of affinity-based organisations.

Luceo Asset Management Limited, the Group's sponsored investment solution business launched in late 2016 to provide the Group's customers with access to investment solutions matched to their agreed risk profiles, continued to accumulate funds during the year, with assets under management increasing to £37 million (2016: £4 million).

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

CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

Directors

Richard Last	Chairman
Malcolm Streatfield	Chief Executive
Peter Smith	Finance Director
Kenneth Paterson	Compliance and Risk Director
Alex Scott-Barrett	Senior Independent and Non-Executive Director
Michelle Cracknell	Non-Executive Director
Ann Roughead	Non-Executive Director

Secretary
Peter Smith

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STRATEGIC REPORT
CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to report the Group's results for the year ended 31 December 2017, which are set out below and in the Consolidated Statement of Comprehensive Income in the Annual Report. Lighthouse achieved a record financial performance in 2017, with EBITDA* increasing by 27 per cent. to £2.8 million compared to £2.2 million in 2016 on revenues up 13 per cent. to £54.1 million (2016: £47.9 million). Profit before taxation for the year amounted to £2.5 million compared to £1.9 million in 2016 – an increase of 32 per cent. Adjusted basic earnings per share (after a standard tax charge) increased by 34 per cent. to 1.59 pence per ordinary share (2016: 1.19 pence per ordinary share).

TRADING HIGHLIGHTS

	2017	2016
Revenue	**£54.1m**	£47.9m
Gross profit	**£14.7m**	£14.5m
Operating costs	**£11.9m**	£12.3m
EBITDA*	**£2.8m**	£2.2m
Depreciation and amortisation	**£0.3m**	£0.3m
Operating profit and profit before taxation	**£2.5m**	£1.9m
Taxation credit	**£0.2m**	£0.7m
Profit after taxation being profit for the financial year	**£2.7m**	£2.6m
Earnings per share:		
Basic	**2.13p**	2.07p
Adjusted basic reflecting standard tax charge**	**1.59p**	1.19p
Fully diluted	**1.98p**	1.97p
Adjusted fully diluted reflecting standard tax charge**	**1.49p**	1.13p

* Earnings before interest, tax, depreciation and amortisation.
** Calculated after applying standard tax charge of 19.25% (2016: 20%).

FINANCIAL PERFORMANCE

Group revenue for 2017 was £6.2 million higher than in 2016, due to the higher average annualised revenue production per adviser, which increased by £23,000 (23 per cent.) to a record level of £122,000 in 2017 (2016: £99,000). This average has increased by 53 per cent. since the introduction of the Retail Distribution Review ("RDR") on 1 January 2013. Recurring revenues reached a new high of £24.8 million or 48 per cent. of total revenue generated from customers.

As advisers within Lighthouse Financial Advice Limited ("LFA"), the Group's affinity-based national advisory business, generated significantly higher gross revenues than targeted, they retained a greater proportion of the revenues they produced. This, together with the payment of fixed investment costs in Luceo Asset Management while the funds build to scale, resulted in gross margins for the year to 31 December 2017 being reduced from 30.2 per cent in 2016 to 27.1 per cent.

"Group revenue for 2017 was £6.2 million higher than in 2016, due to the higher average annualised revenue production per adviser, which increased by £23,000 (23 per cent.) to a record level of £122,000 in 2017 (2016: £99,000)."

Operating costs reduced by £0.4 million or 3 per cent. from £12.3 million in 2016 to £11.9 million in 2017. Overall the Group increased spend on the Luceo Asset Management proposition (£137,000), investments in technology (£197,000), quality assurance to service the increased adviser activity (£103,000) and share-based payment charge (£306,000) as well as maintenance of spend on auto-enrolment (£332,000). These additional costs were offset partially by savings in regulatory fees (£484,000) and professional indemnity insurance costs (£258,000) and increased realisations from credit control activities (£270,000).

The Group's profit before taxation increased by £0.6 million or 32 per cent. to £2.5 million (2016: £1.9 million). Basic earnings per share in 2017 amounted to 2.13 pence per ordinary share after a deferred tax credit of £200,000 (2016: 2.07 pence per ordinary share after the deferred taxation credit of £750,000) and adjusted basic earnings per share, calculated after a standard tax charge of 19.25 per cent. (2016: 20 per cent.) increased by 34 per cent. to 1.59 pence per ordinary share. (2016: 1.19 pence per ordinary share).

AFFINITY AND OTHER BUSINESS RELATIONSHIPS

The Group continues to be a leader in the market for providing advice to members of affinity groups, with 21 contractual relationships at 31 December 2017 whose aggregate membership exceeds six million individuals. Revenues from this activity increased significantly during 2017 to reach £9.6 million, an increase of £2.8 million or 41 per cent. over 2016.

Affinity-sourced business is a highly significant contributor to Group performance, contributing £1.9 million to Group EBITDA in 2017 (2016: £1.1 million). Contracted relationships and revenues have grown consistently since the relaunch of LFA as an affinity-focused business post-RDR, with gross revenues having increased by £5.4 million, an annual compound growth rate of 23 per cent. over the last four years.

The Lighthouse Pensions Trust ("LPT"), the Group's proprietary auto-enrolment solution for small and medium-sized entities ("SMEs"), has continued to grow during the year, with scheme and member numbers at 31 December 2017 having increased by more than 70 per cent. since the beginning of the year, albeit from a low base. As the first wave of employers having to establish auto-enrolment compliant workplace pension schemes draw to a close (by mid-2018) we expect opportunities from consolidation of sub-scale scheme operators to emerge. The Group will continue to monitor the LPT operation and associated opportunities during 2018.

Luceo Asset Management Limited ("Luceo"), the Group's sponsored investment solution business launched in late 2016 to provide the Group's customers with access to sponsored investment solutions matched to their agreed risk profiles, continued to accumulate funds during the year, with assets under management increasing from £4 million at 31 December 2016 to £37 million at 31 December 2017. The initial three Luceo Investment Funds – actively managed, fund of fund solutions in the active asset management space, with Octopus Investments as the Investment Adviser – were augmented by two additional Investment Funds within the same actively managed product offering also with Octopus Investments as Investment Adviser and matching to different risk profiles. The Luceo Investment Funds remain ideally suited to form part of the investment portfolio for the Group's target "Middle Britain" customer.

FINANCIAL POSITION

The Group had cash of £8.7 million as at 31 December 2017 compared to £8.1 million net cash at the previous year-end, an increase of 7 per cent. During the year the Group redeemed in full the commercial property loan of £0.4 million originally taken out in 2013 and secured on the long-leasehold property occupied by the Group in Woodingdean, near Brighton, The loan was repaid out of operating cash flow, leaving the Group debt-free.

BREXIT AND REGULATORY DEVELOPMENTS

The uncertainty within UK financial markets following the vote to leave the EU in June 2016 has not adversely impacted the Group's operations, with the FTSE 100 and similar indices again recording all-time highs in late 2017. Notwithstanding this, the depreciation of sterling against the dollar and the euro will add to the inflationary pressures already building up in the UK and could impact UK consumer spending and investment.

The impact of Brexit on the UK financial services markets has still to be finally determined, notwithstanding the UK Government having served formal notice to leave the EU under Article 50 of the Treaty on European Union in March 2017, and the Group is keeping the situation under close review.

STRATEGIC REPORT
CHAIRMAN'S STATEMENT (continued)

With the Group's customer base domiciled principally in the UK, the Board continues to believe the Group is well placed to deal with any issues that might emerge from Brexit in due course.

Regulation continues to develop apace, with the Markets in Financial Instruments Directive ("MiFID II") having come into force on 3 January 2018 and the General Data Protection Regulation becoming effective from 25 May 2018. These new regulations impose additional obligations in the areas of customer information provision and security of data processing. The Group has well-developed plans to ensure it will be able to comply fully with the new legislation and continues to take a positive approach towards assessing and dealing with new developments in the markets within which it operates, for the benefit of its customers, advisers and stakeholders.

DIVIDENDS

A final dividend of 0.30 pence per ordinary share (2016: 0.18 pence per ordinary share), an increase of 67 per cent., is recommended by the Board and, subject to approval at the forthcoming Annual General Meeting, will be payable on 8 May 2018 to shareholders on the register at close of business on 6 April 2018. The corresponding ex-dividend date is 5 April 2018. This follows the interim dividend of 0.12 pence per ordinary share (2016: 0.09 pence per ordinary share) paid in October 2017 and makes a total dividend for the year of 0.42 pence per ordinary share (2016: 0.27 pence per ordinary share). The Group intends to continue with a progressive dividend policy.

EMPLOYEES AND BOARD

On 2 May 2017, Fay Williams retired from the Board and I should like to take this opportunity to thank her for her valuable contribution during her time as a director of the Company.

I welcome Michelle Cracknell and Ann Roughead who were appointed to the Board as non-executive directors on 1 September 2017. Their expertise in the areas of pension provision and investment management will be invaluable to the Group and I look forward to working with them.

I would like to express my appreciation to my fellow executive directors and all of the Group's employees for their professionalism, hard work and dedication during the year. I should also like to thank my non-executive colleagues for their significant support and contribution during 2017.

ADVISERS

The Group's advisers are the core of what we do in delivering appropriate investment solutions to customers based on holistic financial advice and commensurate with their attitude to risk. I would like to thank all of the Group's advisers for their concerted and highly-skilled contribution to the Group and its clients during 2017.

STRATEGY AND PROSPECTS

The Group continues to focus on improving its operational efficiency and delivering first-class services to its customers by developing innovative solutions.

With an on-going focus on expanding its affinity business, where Lighthouse is a leading player, developing new and enhancing existing financial solutions for customers and increasing cost efficiency, whilst continuing to mitigate risk for the Group and its customers, the Board believes that Lighthouse is well placed to take advantage of the opportunities available.

Richard Last
Chairman

19 February 2018

OVERVIEW

Lighthouse continued to progress well during 2017, with sharply increased average adviser productivity resulting in the Group recording its highest ever EBITDA and profit before taxation at £2.8 million and £2.5 million respectively.

The Group's affinity business continues to grow, with 21 contractual arrangements in place as at 31 December 2017. Total revenues from this source reached a record level of £9.6 million and this high-margin business contributed £1.9 million to Group EBITDA. The Group continues to be seen as the leading provider of holistic financial advice to members of affinity-based organisations.

Average revenues per adviser exceeded £100,000 for the first time at £122,000 – an increase of £23,000 or 23 per cent. over 2016. Recurring revenues increased by £2.9 million to nearly £25 million and remained at 48 per cent. of total revenues generated from customers (2016: £21.9 million and 48 per cent. respectively). This demonstrates the willingness of clients to continue to engage with, and seek advice from, advisers across all of the Group's operations as well as the resilience of the Group's operating model. Gross margins increased by £0.2 million to £14.7 million although were lower in percentage terms at 27.1 per cent. (2016: 30.2 per cent.) as a result of advisers within LFA reaching more favourable payment rates due to their higher revenue production, together with fixed recharges of costs to advisers forming a lower proportion of the higher overall revenues generated, the equivalent costs being charged within operating costs, and the Group writing off fixed fund management costs incurred whilst the Luceo Investment Fund solutions build to scale.

"The Group's affinity business continues to grow, with 21 contractual arrangements in place as at 31 December 2017."

Continuing careful management of the Group's operating cost base resulted in a reduction of £0.4 million in administrative overheads to £11.9 million (2016: £12.3 million). EBITDA increased by 27 per cent. to £2.8 million from £2.2 million in 2016 and pre-tax profit rose by 32 per cent. to £2.5 million from £1.9 million in 2016. This underlines the progress being made by the Group across all operating areas.

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

Further details of 2017 trading are set out later in this review.

OPERATIONS

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

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

At 31 December 2017 the Group employed 149 staff, including employed advisers, and operated out of three principal locations, being London (plc office and base for City-based advisers), Stockport (operating base for Carrwood, including Lighthouse Workplace Solutions, compliance and IT support centre) and Woodingdean, near Brighton (base for LFA operations support and finance and adviser remuneration functions).

STRATEGIC REPORT
CHIEF EXECUTIVE'S REVIEW (continued)

DIVISIONAL COMMENTARY

Lighthouse Financial Advice

LFA is the Group's national advisory business focused on providing appropriate financial advice and solutions to the market area termed "Middle Britain", and holds contractual arrangements as the preferred provider of financial advice to the members of 21 affinity groups across the UK, covering some six million individual members. In 2017, the Group has secured new contracts as the preferred provider of financial advice to the members of the Social Workers Union and the Money Advice Service, for initial periods of 18 months and one year respectively, as well as agreeing renewals with Usdaw and Boundless by CSMA, each for a further three years. The Group's dedicated mortgage offering is also gaining traction within the affinity community, with 14 such organisations now having appointed Lighthouse as the preferred mortgage adviser to their members. These contract wins and renewals confirm LFA's position as the financial adviser of choice for affinity groups and their members and the continuity and extension of such arrangements underpin the potential and future development of LFA.

Revenues generated from affinity-based enquiries across the Group reached £9.6 million in 2017 – an increase of £2.8 million or 41 per cent. over the £6.8 million achieved in 2016 with new business revenues included therein increasing by £2.3 million or 79 per cent. to £5.2 million (2016: £2.9 million). After deducting adviser payaways, introducer payments and directly attributable overheads, the Group's affinity business contributed £1.9 million to Group EBITDA. This contribution is expected to increase as penetration of such relationships becomes deeper and more effective. LFA also leads the distribution of the Group's Luceo Asset Management solutions.

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

In 2017 LFA contributed gross revenues of £19.8 million, an increase of £4.1 million or 26 per cent. over the £15.7 million achieved in 2016, and an EBITDA after allocation of central costs of £2.8 million (2016: £2.7 million).

Wealth management

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

This division produced revenues of £9.7 million, an increase of £1.3 million or 15 per cent. from the £8.4 million recorded in 2016. Average annualised gross revenue production across the employed advisers working with the Group's accountancy connections within Carrwood was maintained at £215,000 with the seven new advisers recruited during the year building towards full productivity.

The Group invested a further £331,000 of third-party costs in its LPT auto-enrolment offering which has been fully expensed in the 2017 results, which contributed to that unit's EBITDA loss (before central cost allocations) of £528,000 in the year. Overall the wealth management segment recorded an EBITDA loss after allocation of central costs of £348,000 (2016: EBITDA loss of £323,000). Without the above third-party costs, this division would have been near EBITDA break-even for the year.

355 auto-enrolment compliant company pension schemes had been staged within the Group's fully advised auto-enrolment solution for SMEs, the Lighthouse Pensions Trust ("LPT"), by 31 December 2017, an increase of 84 per cent. over the 193 at the end of 2016, with a further 22 schemes having signed up to be staged in future periods. Take-up of the LPT has been steady during 2017, despite the continuing reluctance of SME owners to pay for assistance in establishing pension arrangements imposed on them by government when lower-cost, unadvised offerings are available from other sources. Total active individual membership of the Corporate Pensions Trust, incorporating LPT, is now 4,722 – a 43 per cent. increase over the 3,304 equivalent at the end of 2016 – and the business will approach break-even on direct incremental costs during 2018. The Group will continue to manage this business towards profitability and look to take advantage of opportunities that are likely to arise from new company creation and an active secondary market.

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

Lighthouse Advisory Services ("LASER")

2017 saw revenues in the network segment, LASER, increased marginally from £23.8 million to £24.6 million, with average annualised revenue production per adviser increasing by 15 per cent. to £123,000 from £107,000. The Group continues to focus on improving margin and on minimising risk for itself, its clients and its network advisers. The Group will continue to work with those firms which embrace the full Lighthouse Fairway technology and the innovative financial solutions provided for clients by the Lighthouse Researched Solutions and Luceo Investment Fund range to deliver better customer outcomes and a mutually beneficial relationship for the Group and its advisers in this community space.

After allocation of central costs, the network segment recorded an EBITDA of £941,000 (2016: £64,000). The improvement reflected the benefit of general cost control and reviews leading to expense reductions as well as a lower allocation of central overheads given the lower proportion of overall Group revenues produced by this segment.

Luceo Asset Management

The Group has continued to build in 2017 on its in-house investment solutions under the Luceo Investment Funds brand launched with Luceo Asset Management Limited, a wholly-owned subsidiary of the Company, as sponsor in October 2016. Two further sub-funds were added in February 2017 to the existing three actively managed, fund of fund solutions made available in conjunction with Octopus Investments as Investment Adviser, giving a range of funds that cover the main client risk profiles applicable to such products and which provide investments whose risk profiles exactly match those agreed at the time of recommendation by the customer.

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

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

The Luceo Investment Funds have continued to resonate with the Group's adviser communities and are initially focused on the customers of LFA as part of the Lighthouse Researched Solutions range successfully deployed for the benefit of customers since January 2013. Over 75 per cent. of the advisers within LFA have now engaged and arranged investment within the Luceo Funds for the benefit of their clients and total funds amounted to circa £37 million as at 31 December 2017 (2016: £4 million).

The Group has continued to support its Luceo Investment range in 2017 whilst they build to scale. Underwriting the excess of the fixed costs of operating the Funds over the share of the annual management charge (£177,000), together with other direct operating expenses such as business support and the investment committee (£137,000) and allocated central costs resulted in a net EBITDA outlay of £500,000 in the year.

STRATEGIC REPORT
CHIEF EXECUTIVE'S REVIEW (continued)

The Group has examined a number of potential extensions to the Luceo product range during the year and will look to develop and launch new investment options in due course, having regard to the performance and profitability of the current range. This should provide additional demand for the Luceo Fund range and deliver improved customer outcomes across a wider number of customers whilst providing additional revenue and margin for the Group as the Funds move towards scale.

Central costs not allocated to segments amounted to £140,000 (2016: £221,000).

PROFESSIONAL INDEMNITY INSURANCE ("PII")

PII cover is a mandatory cost for businesses that advise clients within the UK retail financial services market, and the market for such cover in the UK has remained tight in recent years. Notwithstanding this, the Group secured an early renewal of its coverage in October 2017 for a further eighteen-month period, with the adoption of carefully risk-rated researched solutions being a key factor in achieving renewal on more favourable terms, including reductions in certain individual case excesses.

REGULATION

2017 has seen continued expansion of regulations applied to the UK financial services distribution sector with substantial new legislation such as MiFID II, which came into force on 3 January 2018, and the General Data Protection Regulation, which comes into effect on 25 May 2018, imposing additional obligations on providers and distributors alike in areas such as client information and data protection. The Group has allocated dedicated resource to establish and deliver plans to comply fully with all relevant aspects of the new legislation and also continues to engage with regulatory authorities to ensure on-going regulation of retail financial services is appropriate and proportionate whilst continuing to recognise the need to minimise risk and provide appropriate advice to and outcomes for its customers.

REVENUE AND GROSS MARGINS

Total revenues increased by £6.2 million or 13 per cent. to £54.1 million from £47.9 million in 2016, driven by increases in average annualised revenue production per adviser which improved by £23,000 or 23 per cent. to £122,000 from £99,000 in 2016. Recurring revenues at £24.8 million were £2.9 million ahead of the £21.9 million recorded in 2016 and remained at 48 per cent. of all revenues generated from customers. These improvements were generated across all of the Group's operating businesses.

Gross margins, expressed as a percentage of total revenues, decreased to 27.1 per cent. from 30.2 per cent. in 2016, reflecting advisers within LFA achieving higher revenue production and thereby improved pay-out ratios under the Group's standard terms of business, the lower overall proportion of adviser charges as a percentage of gross revenues (the costs which these charges are designed to cover are charged within overheads) and the write-off of fixed fund costs in respect of the Group's Luceo Investment Funds whilst these build to scale.

OPERATING COSTS

Operating costs decreased by £0.4 million to £11.9 million in 2017 from £12.3 million in 2016. The decrease was due to lower utilisation of professional indemnity insurance arrangements and regulatory expense (an aggregate reduction of £741,000) and higher realisations from credit control activities (£270,000), partially offset by £197,000 additional investment in IT, £103,000 increased spend in compliance resources to meet the demand from the substantial increase in revenues in the year, an increase in the costs of share-based payments (£306,000) and £103,000 investment costs expensed during the year on the further development and enhancement of the Luceo Asset Management Fund range. The total investment cost expensed in 2017 on the Luceo Investment Funds and auto-enrolment product areas amounted to £468,000 (2016: £684,000).

The Group continues to monitor closely its operating base and looks to minimise such costs where possible.

CARRYING VALUE OF INTANGIBLE ASSETS AND GOODWILL

As required by accounting standards, the Board has undertaken a review of the Group's intangible assets including goodwill arising from business combinations as at 31 December 2017 to identify whether any indicators of impairment existed as at that date and, in the case of those intangible assets with indefinite useful economic lives, whether the carrying values were supported by the estimated net present value of future cash flow projections from the relevant Cash Generating Units or business segments. No such impairment factors were identified and hence no additional provision for impairment has been made (2016: £Nil).

RESULTS FOR THE YEAR

The Group recorded EBITDA for the year of £2.8 million (2016: £2.2 million). After charging £274,000 in respect of depreciation and amortisation and net finance costs of £7,000 (2016: £299,000 and £16,000 respectively), the Group recorded a pre-tax profit of £2.5 million (2016: £1.9 million). Post-tax profit amounted to £2.7 million (2016: £2.6 million), with the utilisation of losses brought forward from prior years being offset by a further recognition of losses previously not included within deferred taxation. The Group has recognised a deferred tax asset in relation to the outstanding share options leading to a tax credit of £200,000 for the year (2016: a credit of £750,000 arising from the recognition of a deferred tax asset for losses brought forward now considered to be recoverable in the foreseeable future).

CASH FLOW, CASH BALANCES AND TREASURY

Year-end cash balances amounted to £8.7 million (2016: £8.1 million after deduction of the bank mortgage redeemed during 2017). The increase of £0.6 million was due to the profit retained for the year of £2.1 million less working capital increases principally as a result of the settlement of historic complaints previously provided for. The bank mortgage of £0.4 million taken out in 2013 to part fund the long-leasehold interest in the Group's LFA operational premises in Woodingdean (total acquisition cost: £1.1 million) was redeemed early in October 2017 at the book cost of £0.4 million.

During 2017 the FCA agreed to release the undertakings previously provided by the Group in respect of maintaining assets and seeking prior approval for distributions by its regulated subsidiaries, recognising the progress made by the Group since the undertakings were provided. After allowing for regulatory and working capital considerations the Board will continue to retain the £4.7 million of cash it holds in excess of regulatory capital requirements in short-dated accounts for the time being.

PROSPECTS

As noted above, the Group has continued to invest in its businesses and in new initiatives. This, together with the on-going focus on higher margin divisions – LFA and Wealth Management – and focused development of the advisers within the network division in conjunction with the Group's Fairway technology and carefully selected Researched Solutions, leave the Group well placed, with a solid financial position and net cash, to take advantage of opportunities.

Malcolm Streatfield
Chief Executive

19 February 2018

STRATEGIC REPORT
KEY PERFORMANCE INDICATORS / ALTERNATIVE PERFORMANCE MEASURES

Lighthouse Group plc uses a number of key performance indicators ("KPIs") to assess business performance. Some are driven by metrics directly related to International Financial Reporting Standards ("IFRSs") whilst others represent alternative performance measures ("APMs").

The principal KPIs used by the Group are as follows:

KPI	What is it?	Why do we use it?	IFRS performance measure?	Reconciled to IFRS?
Total revenue	Aggregate income receivable from customers and advisers, excluding VAT	Indicator of scale and activity level of the Group	Yes	N/A
Recurring revenues	Regular on-going charges payable by customers for regular periodic review of investment portfolios and trail/renewal commissions payable in respect of mortgages and non-investment insurance products advised upon and pre-RDR investments	Regularly recurring income underpins future trading and operating capability	No	Forms part of total revenue reported upon under IFRS
Affinity revenues	That proportion of total revenues derived from affinity-based connections	Servicing our affinity connections is a key part of the Group's growth strategy and the level of total revenues derived from such sources provides a clear indication of performance in this critical area	No	Forms part of total revenue reported upon under IFRS
Average revenue from customers produced by advisers	Total revenue generated from customers (i.e. excluding charges payable by advisers and other non-customer income) divided by average number of advisers in the year	This is a clear indication of the general activity levels of the Group's advisers which will drive margin and ultimately profitability	No	Derived from total revenue reported under IFRS and average adviser numbers
Earnings Before Interest, Depreciation and Amortisation ("EBITDA")	Self-explanatory – profitability before net finance cost/income and non-cash expenses such as depreciation and amortisation of tangible and intangible assets (including goodwill) respectively	EBITDA represents a close proxy for cash profitability subject to working capital and financing costs	No	Reconciled to IFRS profitability measures in the Consolidated Statement of Comprehensive Income
Earnings per share ("EPS") – basic and diluted	Profit after taxation attributable to equity shareholders divided by the total number of ordinary shares in issue and in the case of diluted also the number of share options outstanding at the reporting date and whose exercise price is below the average mid-market price of the Company's shares during the year (i.e. not anti-dilutive)	Earnings per share gives a clear indication to shareholders of the profits per share available to pay dividends	Yes	N/A
Adjusted earnings per share – basic and diluted	As per basic and diluted earnings per share but after eliminating the actual charge or credit for taxation for the year and replacing it with a charge or credit for taxation calculated at the standard rate of UK Corporation Tax applicable to the Group's profit before taxation	The Group has historically been able to utilise significant tax losses generated in prior periods to offset taxable profits. This, together with recognition of unutilised tax losses during a year can lead to unrepresentative tax charges or credits and make comparison between financial reporting years difficult. Application of a standard tax charge or credit enables readers of the Annual Report to make more informed judgements of the Group's financial performance by removing inconsistencies	No	Fully reconciled to IFRS EPS

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of Lighthouse Group plc (the “Company” or the “Group”) for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

A full review of the results for the year ended 31 December 2017 is contained within the Chairman’s Statement and Chief Executive’s Review set out on pages 3 to 5 and 6 to 10 respectively of the Strategic Report. EBITDA for the year amounted to £2,802,000 (2016: £2,208,000). After depreciation and amortisation of £274,000 (2016: £299,000) and net finance costs of £7,000 (2016: £16,000) the Group recorded a profit before tax of £2,521,000 (2016: £1,893,000) and a profit after tax (including a deferred tax credit of £200,000) of £2,721,000 (2016: £2,643,000, including a deferred tax credit of £750,000).

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

An interim dividend of 0.12 pence per share (2016: 0.09 per share) or £153,000 was declared and paid during the year in respect of the financial year ended 31 December 2017 and has been recognised in the consolidated statement of changes in equity. A final dividend of 0.30 pence per share (2016: 0.18 pence per share) is proposed in respect of the year ended 31 December 2017 and will, subject to approval at the forthcoming Annual General Meeting, be paid on 8 May 2018 to shareholders on the register at the close of business on 6 April 2018. The corresponding ex-dividend date is 5 April 2018.

PRINCIPAL ACTIVITIES

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

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

- National, under the Lighthouse Financial Advice brand. The advisers in this segment are all self-employed;
- Network, under the Lighthouse Advisory Services brand. All the advisers in this segment are self-employed. Lighthouse Advisory Services Limited (“LASER”) authorises all of the Group’s advisers, including those in the national and wealth management operating segments; and
- Wealth management, under the LighthouseCarrwood, LighthouseWealth and Lighthouse Group Employee Benefits brands. All of the advisers in this segment are employed by the Group with the exception of those within LighthouseWealth who are self-employed.

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

REVIEW OF BUSINESS

The Group’s Consolidated Statement of Comprehensive Income for the year is set out on page 27. Detailed commentary on the Group’s trading during the year is included within the Chairman’s Statement and Chief Executive’s Review set out on pages 3 to 5 and 6 to 10 respectively.

REPORT OF THE DIRECTORS (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Competitive and business risks

These comprise:

- adverse changes in the general economic environment and, more specifically, in the market for the provision of retail financial services to UK consumers within which the Group operates;
- the increasing use of technology which could enable UK consumers to procure retail financial products direct from the manufacturer;
- increases in the scale and scope of regulation imposed by UK and European governments;
- the ability of the Group to recruit and retain quality financial advisers;
- the availability of professional indemnity insurance at commercially acceptable rates within the market for distribution of retail financial products in the UK;
- an increasing tendency for UK consumers of retail financial products to make claims for redress in the light of lower than expected performance of such products; and
- inflationary impacts on the operating cost base of the Group.

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

The Group is reliant on retaining and recruiting quality financial advisers. Potential recruits are subject to financial and qualitative assessment, and management looks to ensure that the offerings from the Group are attractive to new and existing advisers whilst resisting pressure to erode margins or reduce the quality of advice provided.

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

Consumer and regulatory risks

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

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

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

Financial risks

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

Credit risks exist where a number of advisers have a financial obligation to the Group, normally arising from clawback of commission from product providers for subsequent policy cancellations and mid-term adjustments or individual case excesses arising from upheld complaints. The Group mitigates this risk by a range of measures including the retention (where appropriate) of a proportion of funds from advisers to cover potential clawbacks. In addition, clawbacks and complaints are closely monitored and recoveries from advisers initiated on the basis of agreed repayment schedules.

Credit risks in respect of product providers are considered to be minimal, notwithstanding the recent turmoil in UK and global financial markets. The Group has established procedures to monitor closely where applicable amounts due from customers, as opposed to payments effected via product providers.

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

CHARITABLE DONATIONS

During the period, the Group donated obsolete IT equipment to local charitable organisations and schools with a net book value of £Nil (2016: £Nil).

DISABLED EMPLOYEES

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

EMPLOYEES

Details of the number of employees and their related costs are set out in Note 4 to the Financial Statements and, in the case of the directors of the Company, within this report and the Directors' Remuneration Report set out on pages 18 to 21.

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

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

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

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

REPORT OF THE DIRECTORS (continued)

DIRECTORS

The directors of the Company who held office during the year were as follows:

Richard Last
Malcolm Streatfield
Peter Smith
Kenneth Paterson
Alex Scott-Barrett
Michelle Cracknell – appointed 1 September 2017
Ann Roughead – appointed 1 September 2017
Fay Williams – retired 2 May 2017

In accordance with the Articles of Association and the Companies Act 2006, M Streatfield and P Smith, being eligible, will be offering themselves for re-election at the forthcoming Annual General Meeting. In addition, M Cracknell and A Roughead, having been appointed as directors of the Company since the date of the last Annual General Meeting, will offer themselves for re-election at the forthcoming Annual General Meeting. Information in respect of directors' interests is disclosed in the Directors' Remuneration report on pages 18 to 21.

SUBSTANTIAL SHAREHOLDINGS

As at 15 February 2018 the Company had been notified of the following interests in the ordinary share capital of the Company.

Name of holder	Number	%
Helium Rising Star Fund	25,731,685	20.15
Mr. Allan Rosengren	20,216,155	15.83
MI Discretionary Unit Fund	11,470,588	8.98
Liverpool Victoria Financial Advice Services Limited	8,353,706	6.54
Cavendish Asset Management	7,110,000	5.57
Old Mutual Wealth Holdings Limited	5,581,383	4.37
Mr. David Hickey	5,161,772	4.04
Aegon UK plc	4,487,689	3.51

FINANCIAL INSTRUMENTS

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

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Chief Executive's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Consolidated Statement of Comprehensive Income, the Group Statement of Financial Position and the Consolidated Cash Flow Statement on pages 27, 30 and 31 respectively. In addition Note 18 on risk management includes the Group's and the Company's objectives, policies and processes for managing their capital, their financial risk management objectives, details of their financial instruments and their exposures to credit risk and liquidity.

The Group has considerable financial resources with £8.7 million of cash at bank and no bank debt or other financial liabilities and has long-established relationships with its clients, advisers and providers. In addition, Lighthouse Advisory Services Limited, its sole trading regulated subsidiary entity, had a surplus of eligible assets over its minimum capital requirements for regulatory purposes of £2,651,000. As a consequence of the above, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

During the year, the FCA agreed to release the Group from the undertakings it had previously given that its regulated subsidiaries will not make distributions or non-trading payments without discussion with and consent from the FCA.

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

ENVIRONMENT

The Group takes its social and environmental responsibilities seriously. Where possible the Group's offices use high-efficiency, low-energy equipment, lighting and heating. Paper waste generated from the Group's operations is recycled and/or destroyed securely.

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

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

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

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

CORPORATE GOVERNANCE

The directors intend, to the extent appropriate given the Company's size and the constitution of the Board, to use the UK Corporate Governance Code issued by the Financial Reporting Council and which is appended to the Listing Rules of the FCA, as a guide to good practice in the area of corporate governance. The Board has separate roles for Chairman and Chief Executive.

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

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

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

REPORT OF THE DIRECTORS (continued)

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

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

INTERNAL CONTROL

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

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

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

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

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

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

The Board has reviewed the effectiveness of the system of internal controls and it has considered the major business risks and the control environment. No significant control deficiencies were reported during the period. No weaknesses in internal control have resulted in any material losses, contingencies or uncertainty, which would require disclosure, as recommended by the guidance for directors on reporting on internal control.

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

AUDITOR

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

BY ORDER OF THE BOARD

Peter Smith
Company Secretary

19 February 2018

DIRECTORS’ REMUNERATION REPORT

COMPOSITION OF THE REMUNERATION COMMITTEE

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

Alex Scott-Barrett (Chairman)
Richard Last
Michelle Cracknell
Ann Roughead

THE DIRECTORS’ REMUNERATION REPORT REGULATIONS 2002

The Group is not required to comply with S.I. 2013/1981 (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013), and accordingly the content of this report does not include all the information required by those regulations.

REMUNERATION POLICY

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

REMUNERATION PACKAGE

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

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

CONTRACTS OF SERVICE AND TERMS OF ENGAGEMENT

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

DIRECTORS’ FEES

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

DIRECTORS' REMUNERATION REPORT (continued)

DIRECTORS' EMOLUMENTS

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

2017	M Streatfield £'000	P Smith £'000	K Paterson £'000
Salary & fees	**264**	**206**	**112**
Benefits	**6**	**7**	**1**
Bonus	**100**	**70**	**30**
Total excluding pensions	**370**	**283**	**143**
Pension	**5**	**4**	**2**
Total emoluments 2017	**375**	**287**	**145**

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

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

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

2017	R Last £'000	A Scott-Barrett £'000	M Cracknell (since 01/09/17) £'000	A Roughead (since 01/09/17) £'000
Salary & fees being total emoluments	**60**	**43**	**12**	**12**
2016	£'000	£'000	£'000	£'000
Salary & fees being total emoluments	60	36	–	–

The salary & fees paid to Fay Williams in 2017 before her retirement on 2 May 2017 were £11,000 (2016: £32,000).

INTERESTS IN OPTIONS

On 10 December 2015, the Company established a new Long Term Incentive Plan ("LTIP") for the benefit of its executive directors and senior management employees. The LTIP contains provisions in respect of vesting and exercise of options for variations in the share capital of the Company and for a change in control. The directors have received advice that, as at the date of grant of the LTIP options, the Company's shares qualified under the Enterprise Management Incentive ("EMI") legislation. Under that legislation, options granted to an individual employee up to an aggregate market value of £250,000 constitute approved options with the remainder being unapproved.

The maximum number of new ordinary shares that can be issued under the LTIP and the Company's other employee share plans is capped at 15 per cent. of the Company's issued share capital within a 10 year period. The aggregate number of options outstanding as at 31 December 2017, 12,216,526, amounted to 9.6 per cent. of the Company's issued share capital.

The Company has granted two tranches of new share options under the LTIP as follows:

LTIP Tranche 1

On 10 December 2015, the Company granted new share option awards to its three executive directors comprising a total of 6,400,000 new options (out of a total of 7,000,000 new share options awarded in total to directors and senior management) over new ordinary shares in the Company. These options would vest after the expiry of the measurement period, being three years, subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share.

Half of the options were subject to an earnings per share ("EPS") performance condition. The threshold vesting level (20 per cent. of the total options granted for this part of the award) was a basic EPS of 0.7 pence per ordinary share in the year ended 31 December 2017 and full vesting would take place should basic EPS for that year be at least 1.4 pence per ordinary share with straight-line vesting in between these points. The EPS figure used at both the start and end of the performance measurement period was to be an adjusted EPS figure, calculated after a normalised tax charge. The adjusted EPS charge for 2017 was 1.59 pence per ordinary share with the equivalent figure for 2016 being 1.19 pence per ordinary share.

The remaining half of the options were subject to a total shareholder return (share price performance plus dividends added back) performance condition. The threshold vesting level (again for 20 per cent. of the total options granted for this part of the award) will be at 14 pence per ordinary share at the relevant measurement date, being 10 December 2017, with full vesting at 22 pence per ordinary share and straight-line vesting in between these points.

On 24 January 2018 the Remuneration Committee confirmed that the full allocation of share options awarded under LTIP 1 would vest to the relevant individual award holders at the end of the measurement period or earlier as provided under the LTIP Rules.

LTIP Tranche 2

On 2 June 2017, the Company granted new share option awards to its three executive directors comprising a total of 3,500,778 new options (out of a total of 5,163,972 new share options awarded in total to directors and senior management) over new ordinary shares in the Company. These options would vest after the expiry of the measurement period, being three years, subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share.

The terms and performance conditions are similar to those of Tranche 1 save that the EPS targets (for 50 per cent. of the total awards) were set for the year ending 31 December 2019 at a threshold level of 1.5 pence per ordinary share and an upper level for full allocation of that part of the award of 2.2 pence per ordinary share. Similarly, the total shareholder return targets were set as at the end of that year at a threshold level of 23 pence per ordinary share for a 20 per cent. vesting of that part of the award and an upper level for full vesting of that part of the award of 31 pence per ordinary share. Amounts to be vested would again be calculated on a straight-line basis for actual levels achieved between the threshold and upper levels.

DIRECTORS' REMUNERATION REPORT (continued)

The following options granted to executive directors under the terms of the LTIP were outstanding as at 31 December 2017:

	Date granted	No. of ordinary shares	Exercise price	Earliest date exercisable	Latest date exercisable
M Streatfield (approved)	10 December 2015	2,564,102	1.0p	10 December 2018	10 December 2025
M Streatfield (unapproved)	10 December 2015	685,898	1.0p	10 December 2018	10 December 2025
M Streatfield (unapproved)	2 June 2017	1,761,869	1.0p	2 June 2020	2 June 2027
Total for M Streatfield		**5,011,869**			
P Smith (approved)	10 December 2015	2,550,000	1.0p	10 December 2018	10 December 2025
P Smith (approved)	2 June 2017	8,992	1.0p	2 June 2020	2 June 2027
P Smith (unapproved)	2 June 2017	1,355,880	1.0p	2 June 2020	2 June 2027
Total for P Smith		**3,914,872**			
K Paterson (approved)	10 December 2015	600,000	1.0p	10 December 2018	10 December 2025
K Paterson (approved)	2 June 2017	374,037	1.0p	2 June 2020	2 June 2027
Total for K Paterson		**974,037**			

The market price of the Company's shares on 31 December 2017 was 19.50 (2016: 11.50) pence per ordinary share and the highest and lowest share prices during the year were 11.50 pence and 20.25 pence per ordinary share. No options have been exercised by any of the directors during the year.

DIRECTORS' INTERESTS

The directors who held office at 31 December 2017 had the following beneficial interest in the ordinary share capital of the Company at 31 December 2017 according to the register of directors' interests:

Director	At 31 December 2017 No. of ordinary shares of 1p each	At 31 December 2016 No. of ordinary shares of 1p each
Malcolm Streatfield	2,724,563	2,724,563
Richard Last	812,500	812,500
Peter Smith	430,000	330,000
Alex Scott-Barrett	305,000	305,000
Kenneth Paterson	45,000	25,000

Michelle Cracknell and Ann Roughead had no beneficial interest in the ordinary share capital of the Company at 31 December 2017.

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

Alex Scott-Barrett
Chairman, Remuneration Committee

19 February 2018

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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Lighthouse Group plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated statements of comprehensive income, consolidated and parent statements of financial position, consolidated and parent statements of changes in equity, consolidated and parent statement of cash flows, and the related notes, including the accounting policies in note 1.

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to SME listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

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

The risk	Our response
Risk relating to the Group:	
Recoverability of goodwill (£5.0 million; 2016: £5.0million) *Refer to page 36 (accounting policy) and page 50 and 51 (financial disclosures).* *Forecast-base valuations* The Group carries significant goodwill balances. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Key assumptions in this calculation are the level of advisor recruitment and productivity, the discount rate and the terminal growth rate.	Our procedures included: *Comparing valuations* We compared the market capitalisation of the Group to its net assets to sense check the book value of the Group is not overstated, which might be a potential indicator of impairment. *Historical comparisons* In relation to the assumptions made over the level of advisor recruitment and advisor productivity, we assessed performance against budget in 2017 to test the Group's ability to forecast accurately and then assessed the assumptions used for the forecast period against past practice and known developments in each segment. *Our sector experience* With the assistance of our valuation specialists, for the terminal growth rate and the discount rate, we compared the Group's assumptions to externally derived data, with reference to industry practice. *Sensitivity analysis* We performed sensitivity analysis on the assumptions noted above. *Assessing the transparency* We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.
Risk relating to the Parent only:	
Recoverability of parent company's investment in subsidiaries (£8.3 million; 2016: £5.2 million) *Refer to page 52 (financial disclosures).* *Low risk, high value* The carrying amount of the parent company's investments in subsidiaries represents 100% (2016: 100%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: *Test of details* We compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessed whether those subsidiaries have historically been profit-making. *Assessing subsidiary audits* We assessed the work performed on the subsidiary audits and considered the results of that work, on those subsidiaries' profits and net assets.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £130,000 (2016: £110,000), determined with reference to a benchmark of profit before tax of which it represents 5% (2016: 0.2% of revenue). The benchmark was changed to profit before tax because improvements in the profitability of the business makes this the benchmark which most influences the economic decisions of the users of the financial statements.

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

Materiality for the parent company financial statements as a whole was set at £124,000 (2016: £105,000), determined with reference to a benchmark of company total assets, of which it represents 1.5% (2016: 2.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £6,500 (2016: £5,500) in addition to other identified misstatements that warranted reporting on qualitative grounds

All of the Group's eleven (2016: ten) operating components, including the parent company, were subject to full scope audits for Group purposes, all of which were performed by the Group audit team. These audits accounted for 100% (2016: 100%) of total Group revenue, 100% (2016: 100%) of Group profit before taxation and 100% (2016: 100%) of total Group assets and were each performed to a component materiality level of £124,000 (2016: £105,000) having regard to the mix of size and risk profile of the Group across these components.

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, 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.

We have nothing to report in these respects.

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

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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 and the terms of our engagement by the Company. 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.

Ravi Lamba
(Senior Statutory Auditor)

for and on behalf of

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

19 February 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Revenue	3	**54,111**	47,919
Cost of sales		**(39,439)**	(33,452)
Gross profit		**14,672**	14,467
Administrative expenses			
Operating expenses		**(11,870)**	(12,259)
Earnings before interest, tax, depreciation, amortisation		**2,802**	2,208
Depreciation and amortisation	5	**(274)**	(299)
Total administrative expenses		**(12,144)**	(12,558)
Operating profit		**2,528**	1,909
Finance income	6	**3**	11
Finance costs	6	**(10)**	(27)
Profit before taxation		**2,521**	1,893
Taxation	7	**200**	750
Profit after taxation and total comprehensive income for the year		**2,721**	2,643
Basic earnings per share	8	**2.13p**	2.07p
Adjusted basic earnings per share	8	**1.59p**	1.19p
Diluted earnings per share	8	**1.98p**	1.97p
Adjusted diluted earnings per share	8	**1.49p**	1.13p

All activities are classed as continuing.

The profit and total comprehensive income for both 2017 and 2016 were wholly attributable to the equity holders of the Company.

The notes on pages 33 to 65 form an integral part of these financial statements.

Basic and diluted earnings per share are stated after the actual tax charge or credit for the year. Adjusted basic and diluted earnings per share are stated after deducting a notional tax charge, calculated at the standard rate of UK corporation tax applicable for the year, in order to aid comparison between the two years (see note 8).

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £'000	**Special non-distributable reserve £'000**	**Reserves arising from share-based payments £'000**	**Retained earnings £'000**	**Total attributable to equity shareholders £'000**
At 1 January 2017	**1,277**	**1,999**	**1,102**	**4,586**	**8,964**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**2,721**	**2,721**
Transactions with owners, recorded directly in equity:					
Dividends paid	**–**	**–**	**–**	**(383)**	**(383)**
Share-based payment	**–**	**–**	**385**	**–**	**385**
At 31 December 2017	**1,277**	**1,999**	**1,487**	**6,924**	**11,687**

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

The notes on pages 33 to 65 form an integral part of these financial statements.

COMPANY STATEMENTS OF CHANGES IN EQUITY AT 31 DECEMBER 2017

	Share capital £'000	**Special non-distributable reserve £'000**	**Reserves arising from share-based payments £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2017	**1,277**	**90**	**746**	**3,125**	**5,238**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**3,076**	**3,076**
Transactions with owners, recorded directly in equity:					
Dividends paid	**–**	**–**	**–**	**(383)**	**(383)**
Equity contribution to subsidiary undertaking (note 13)	**–**	**–**	**385**	**–**	**385**
At 31 December 2017	**1,277**	**90**	**1,131**	**5,818**	**8,316**

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

The notes on pages 33 to 65 form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Assets					
Non-current assets					
Intangible assets	**11**	**5,131**	5,230	**–**	–
Property, plant and equipment	**12**	**1,397**	1,240	**–**	–
Investments in subsidiaries	**13**	**–**	–	**8,316**	5,238
Deferred tax asset	**7**	**950**	750	**–**	–
		7,478	7,220	**8,316**	5,238
Current assets					
Trade and other receivables	**14**	**8,187**	9,004	**–**	–
Cash and cash equivalents	**15**	**8,733**	8,501	**–**	–
		16,920	17,505	**–**	–
Total assets		**24,398**	24,725	**8,316**	5,238
Current liabilities					
Trade and other payables	**16**	**8,789**	9,302	**–**	–
Provisions	**17**	**2,846**	3,005	**–**	–
		11,635	12,307	**–**	–
Non-current liabilities					
Trade and other payables	**16**	**–**	405	**–**	–
Provisions	**17**	**1,076**	3,049	**–**	–
		1,076	3,454	**–**	–
Total liabilities		**12,711**	15,761	**–**	–
Net assets		**11,687**	8,964	**8,316**	5,238
Capital and reserves					
Called-up share capital	**19**	**1,277**	1,277	**1,277**	1,277
Special non-distributable reserve	**21**	**1,999**	1,999	**90**	90
Other reserves – share-based payments		**1,487**	1,102	**1,131**	746
Retained earnings		**6,924**	4,586	**5,818**	3,125
Total equity attributable to equity holders of the Company		**11,687**	8,964	**8,316**	5,238

The financial statements on pages 27 to 65 were approved by the Board on 19 February 2018 and signed on its behalf by:

Malcolm Streatfield, Director
Peter Smith, Director

The notes on pages 33 to 65 form an integral part of these financial statements.

Company registered number 04042743.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Profit before tax for the year		**2,521**	1,893
Adjustments to reconcile profit for the year to net cash inflow from operating activities			
Finance income	6	(3)	(11)
Finance costs	6	10	27
Depreciation of property, plant and equipment	5	150	157
Amortisation of intangible assets	5	124	142
Share-based payment	20	385	79
Change in trade and other receivables	14	817	4,262
Change in trade and other payables	16	(479)	(1,361)
Change in provisions	17	(2,132)	(4,493)
Cash generated from operations		**1,393**	695
Finance costs paid	6	(10)	(27)
Net cash inflow from operating activities		**1,383**	668
Investing activities			
Purchase of property, plant and equipment	12	(307)	(126)
Purchase of intangible costs	11	(25)	(88)
Finance income received	6	3	11
Net cash outflow from investing activities		**(329)**	(203)
Financing activities			
Bank loan repayments		(439)	(34)
Dividends paid to equity shareholders	9	(383)	(319)
Net cash outflow from financing activities		**(822)**	(353)
Increase in cash and cash equivalents		**232**	112
Cash and cash equivalents at the beginning of the year		**8,501**	8,389
Cash and cash equivalents at the end of the year	15	**8,733**	8,501

The notes on pages 33 to 65 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Profit before tax for the year		**3,076**	808
Adjustments to reconcile profit for the year to net cash inflow from operating activities			
Change in trade and other receivables (net of impairment of amounts owed by group undertakings)	**14**	**–**	–
Change in trade and other payables	**16**	**–**	–
Change in impairment of investments in and amounts owed by subsidiary undertakings	**13**	**(2,693)**	(489)
Net cash inflow from operating activities		**383**	319
Financing activities			
Dividends paid to equity shareholders	**9**	**(383)**	(319)
Net cash outflow from financing activities		**(383)**	(319)
Increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

The notes on pages 33 to 65 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 were authorised for issue by the board of directors on 19 February 2018 and the statements of financial position were signed on the Board's behalf by Malcolm Streatfield and Peter Smith. Lighthouse Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the Alternative Investment Market operated by the London Stock Exchange.

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

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

2. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow set out the material policies which have been applied in preparing the financial statements of the Group and Company for the year ended 31 December 2017. The Group and Company financial statements are presented in sterling, which is the Group's functional currency, and are rounded to the nearest £'000.

Standards and interpretations effective in 2017

There were no changes in financial reporting and accounting standards effective for annual periods beginning on or after 1 January 2017, impacting the Group's 2017 accounts.

Going concern

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

The Group has considerable financial resources with some £8.7 million of cash at bank and no bank debt or other financial liabilities and has long established relationships with its clients, advisers and providers. In addition, Lighthouse Advisory Services Limited, its trading regulated subsidiary entity, had a surplus of eligible assets over their minimum capital requirements for regulatory purposes of £2,651,000. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

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

Critical estimates and assumptions

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

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

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

- Assessment of whether goodwill or intangible assets are impaired – Note 11;

The key assumptions made by management in determining the measurement of the present day values in use of cash-generating unit ("CGUs") containing goodwill and intangible assets and which may give rise to estimation uncertainty are:

- the success of the Group's development plans including successfully addressing any under-performing divisions where appropriate;
- recruitment plans in its national and wealth management segments;
- the level of adviser productivity;
- the assumed rate of long term growth in cash flows; and
- the discount rate applied to the estimated future cash flows.

Basis of consolidation

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

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, is stated net of value added tax and is earned within the United Kingdom as fees (customer charges), commission and administration charges.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Fee and commission income comprise initial charges receivable on inception of a new policy or investment product ('initial commissions or charges') and on-going charges or commission receivable on renewal ('renewal commissions'). Initial charges or commissions are recognised when the policy goes on risk after taking account of provisions for the potential cancellation of policies where commission is received under indemnity terms. On-going charges and renewal commissions are recognised on receipt when earned. This is because such income is earned periodically when either the service is supplied (for on-going charges) or at a specific valuation date (for renewal commission earned on pre-RDR investments). In both cases the income would not arise if the customer was to cancel the agreement for on-going service and hence charge or withdraw the funds previously invested (in the case of pre-RDR investments) before the date on which the service was to be delivered or the valuation updated. In the case of commission earned under indemnity terms, the income is recognised when the policy goes on-risk but an assessment of the likelihood of the customer cancelling the policy within the indemnity period is made and a provision established accordingly (see provisions policy below). Fees for administration charges and other services are recognised as the services are provided.

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

The Group has considered the potential impact of IFRS 15 "Revenue from Contracts with Customers", which is applicable for accounting periods beginning on or after 1 January 2018, on the current policy for revenue recognition and concluded that there would be no material impact on the revenues as currently reported, bearing in mind the nature of the revenues arising as set out above, but will keep the position under review.

Cost of sales

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

Segmental reporting

The Board of Lighthouse Group plc, which considers itself to be the Chief Operating Decision Maker ("CODM") for the Group as it is the highest level of management at which performance is evaluated and resources allocated on the basis of internal reports supplied, identifies those operating segments which are separable and required to be reported separately by IFRS 8.

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

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

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

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

Business combinations and goodwill

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

The Group measures goodwill at the acquisition date as:

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

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

Investment in group undertakings

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

Intangible assets

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

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

Commissions processing software and development	3-5 years
Acquired customer relationships	9-13 years
Acquired Appointed Representative contracts	10-13 years

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Property, plant and equipment

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

Freehold and long-leasehold property	50 years
Leasehold improvements	Lower of life of lease or 10 years
Office equipment	5-10 years
Computer equipment	3 years

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

An item of property, plant and equipment is 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 de-recognition of the asset is included in the Consolidated Statement of Comprehensive Income in the period of de-recognition.

Impairment of assets

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

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

Financial instruments

Non-derivative financial instruments

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

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

Accounting for finance income and costs is discussed on page 39 of the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other non-derivative financial instruments

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

Share capital – ordinary shares

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

Provisions

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

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

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

The provision for clawback of indemnity commission represents the expected value of commissions potentially reclaimable by product providers in respect of current policies that may be cancelled during the indemnity period. The provision is calculated by reference to historical data arising from past claims, referenced to sales made under indemnity terms where the earning period has not yet expired. An amount relating to the element of clawbacks recoverable from advisers is included within debtors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Pension schemes

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

Finance income and costs

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

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

Income tax

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

Development costs

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

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

Share-based payments

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Leases

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

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

New standards and interpretations not applied

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

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- FRS 15 Revenue from Contracts with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date I January 2019).
- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (effective date 1 January 2018).

The Group has considered the potential impact of IFRS 16 Leases (effective date 1 January 2019) on the financial statements as currently presented. If IRFS 16 had been implemented as at 31 December 2017 the Group would have recognised an additional tangible asset (within property, plant and equipment) of £565,000 and corresponding increases in trade and other payables due within one year and after more than one year of £204,000 and £368,000 respectively as at that date. The impact on the results for the year ended 31 December 2017 would have been to reduce lease payments charged to operating costs by £240,000 and to increase depreciation and finance costs by £192,000 and £55,000 respectively.

None of the other IFRSs noted above would have had a material impact on the results or statements of financial position of the Group as currently presented.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3. REVENUE AND SEGMENT REPORTING

The revenue and profit before taxation in both 2017 and 2016 were wholly attributable to the principal activity of the Group and relate to services provided in the United Kingdom. All of the Group's principal segments provide financial advice on, and distribute similar financial products and there is no geographical basis to differentiate any particular segments.

The Group has identified three business components as comprising reportable operating segments, being its national, network and wealth management operations. The measurement of segment profit that is reviewed by the CODM is EBITDA.

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

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

Other segments comprise those activities which do not fall to be classified as operating segments, as defined on pages 35 and 36.

Segment information is as follows:

Year ended 31 December 2017	National £'000	Network £'000	Wealth management £'000	Other segments £'000	Total £'000
Total revenues	19,840	53,871	9,653	166	83,530
Less inter-segment revenues	–	(29,419)	–	–	(29,419)
External revenues	19,840	24,452	9,653	166	54,111
Cost of sales and other operating expenses	(16,991)	(23,511)	(10,001)	(806)	(51,309)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	2,849	941	(348)	(640)	2,802
Depreciation and amortisation					(274)
Operating profit					2,528
Finance income					3
Finance costs					(10)
Profit before taxation					2,521

Other segments in 2017 include the initial results of Luceo Asset Management Limited, the Company's wholly-owned subsidiary that sponsors risk-aligned investment solutions that are made available to the Group's customers. The business recorded an EBITDA loss of £500,000 in 2017 (2016: £Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

Segment assets and liabilities are as follows:

	2017 £'000	2016 £'000
Segment assets		
National	**1,381**	1,711
Network	**17,746**	17,615
Wealth management	**3,993**	3,858
Other segments and unallocated	**7,792**	7,194
Total assets including inter-segment	**30,912**	30,378
Inter-segment assets	**(6,514)**	(5,653)
Total assets per financial statements	**24,398**	24,725
Segment liabilities		
National	**1,176**	2,572
Network	**9,543**	12,101
Wealth management	**1,174**	854
Other segments and unallocated	**7,332**	5,887
Total liabilities including inter-segment	**19,225**	21,414
Inter-segment liabilities	**(6,514)**	(5,653)
Total liabilities per financial statements	**12,711**	15,761

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

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

	2017 £'000	2016 £'000
Wages and salaries – advisers	**1,780**	1,423
Wages and salaries – other staff	**5,159**	5,137
Share-based payment	**385**	79
Social security costs	**779**	723
Other pension costs	**196**	193
Total charged to statement of comprehensive income	**8,299**	7,555

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

	2017 Number	2016 Number
Executive directors	**3**	3
Financial advisers	**25**	23
Administration staff	**115**	117
	143	143

The executive directors of the Company, as detailed in the Directors' Remuneration Report on pages 18 to 21, are considered to be the key management personnel within the Group.

Directors

	2017 £'000	2016 £'000
Base remuneration (including bonus)	**934**	874
Company contributions to money purchase pension schemes	**11**	11
	945	885

Highest paid director

	2017 £'000	2016 £'000
Base remuneration (including bonus)	**370**	348

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

5. OPERATING PROFIT

The operating profit of the Group is stated after charging:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	**150**	157
Amortisation of intangible assets	**124**	142
Leasehold property – lease payments	**235**	225
Hire of equipment under operating leases	**83**	88

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

	2017 £'000	2016 £'000
Audit of the financial statements	**71**	65
Other fees to auditor:		
Local statutory audits for subsidiaries	**57**	52
Other fees to auditor – Taxation services	**18**	18
Other services	**1**	8
	147	143

6. FINANCE INCOME AND COSTS

Finance income

	2017 £'000	2016 £'000
Bank interest receivable	**3**	11
Total finance income	**3**	11

Finance costs

	2017 £'000	2016 £'000
Interest on short-term funding	**–**	(13)
Interest on bank loan (note 16)	**(10)**	(14)
Total finance costs	**(10)**	(27)

The total finance costs paid in the year amounted to £10,000 (2016: £27,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

7. TAXATION

(a) Analysis of credit in year

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax charge at 19.25% (2016: 20.00%)	**–**	–
Deferred tax credit (see below)	**200**	750
Tax credit on profit on ordinary activities	**200**	750

(b) Reconciliation of the total tax credit

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

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	**2,521**	1,893
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	**485**	379
Effects of:		
Share-based payment charge not deductible for tax purposes	**74**	16
Expenses not deductible for tax purposes	**4**	5
Capital allowances in excess of depreciation for the year	**(20)**	(3)
Other timing and permanent differences	**–**	(1)
Brought forward tax losses utilised	**(547)**	(396)
Deferred tax asset recognised (see below)	**(200)**	(750)
Current year losses not relieved	**4**	–
Tax charge/(credit) for year	**(200)**	(750)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

c) Deferred tax – Group

The deferred tax balances evaluated at 17.90% (2016: 18.35%) can be analysed as follows:

	2017		2016	
	Recognised £'000	**Not recognised £'000**	Recognised £'000	Not recognised £'000
Difference between accumulated depreciation and capital allowances	**–**	**(26)**	–	(4)
Deferred tax arising on share-based payments	**200**	**–**	–	–
Trading losses	**750**	**249**	750	791
Deferred tax asset	**950**	**223**	750	787

The Group has recognised a deferred tax asset of £200,000 (2016: £Nil) representing the future tax relief available on outstanding share options earned but not vested as at the balance sheet date. The Group recognised a deferred tax asset which represented the proportion of unutilised corporation tax losses as at 31 December 2017 and 2016 previously not recognised but is now considered by the Group to be recoverable in the foreseeable future. This position will continue to be reviewed annually.

8. EARNINGS PER ORDINARY SHARE

The calculation of the basic earnings per ordinary share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year of 127,700,298 (2016: 127,700,298).

As at 31 December 2017, there were 52,554 options (2016: 610,594 options) that existed which could potentially dilute basic earnings per share in the future, but were regarded as being anti-dilutive and therefore were not included in the calculation of dilutive shares, as their exercise price was higher than the average mid-market price of the Company's ordinary shares during the period. The 12,163,972 options issued under the Company's Long Term Incentive Plan as at 31 December 2017 (2016: 7,000,000 options) are included in the calculation of diluted shares, as their exercise price was lower than the average mid-market price of the Company's ordinary shares during the period. The weighted average number of shares for the purposes of calculating the fully diluted earnings per share during the year was 137,079,237 (2016: 133,831,689).

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

	2017		2016	
	Earnings £'000	**Per share amount Pence**	Earnings £'000	Per share amount Pence
Basic earnings per share				
The basic earnings per share can be analysed as follows:				
On EBITDA	**2,802**	**2.19p**	2,208	1.73p
Effects of:				
Depreciation and amortisation	**(274)**	**(0.21p)**	(299)	(0.24p)
Net finance cost	**(7)**	**(0.01p)**	(16)	(0.01p)
Tax credit	**200**	**0.16p**	750	0.59p
Profit attributable to ordinary shareholders	**2,721**	**2.13p**	2,643	2.07p
Dilutive effect				
Options	**–**	**(0.15p)**	–	(0.10p)
Diluted profit per share	**2,721**	**1.98p**	2,643	1.97p

Reconciliations of the adjusted earnings per share are set out below:

	2017		2016	
	Earnings £'000	**Per share amount Pence**	Earnings £'000	Per share amount Pence
Adjusted basic earnings per share				
The adjusted basic earnings per share can be analysed as follows:				
Profit attributable to ordinary shareholders (per above)	**2,721**	**2.13p**	2,643	2.07p
Less tax credit (note 7)	**(200)**	**(0.16p)**	(750)	(0.59p)
Less charge for taxation at standard rate of 19.25% (2016: 20%)	**(485)**	**(0.38p)**	(379)	(0.29p)
Adjusted profit attributable to ordinary shareholders	**2,036**	**1.59p**	1,514	1.19p
Dilutive effect				
Options	**–**	**(0.10p)**	–	(0.06p)
Adjusted diluted profit per share	**2,036**	**1.49p**	1,514	1.13p

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

9. DIVIDENDS PAID AND PROPOSED

Paid:

	2017 £'000	2016 £'000
2016 final dividend at 0.18 pence per share (2015: 0.16 pence per share)	**230**	204
2017 interim dividend at 0.12 pence per share (2016: 0.09 pence per share)	**153**	115
	383	319

The directors recommend a final dividend for 2017 of 0.30 pence per share (2016: 0.18 pence per share).

10. PROFIT FOR THE FINANCIAL YEAR

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

The Company's profit for the financial year was £3,076,000, (2016: £808,000) comprising provision movements against the carrying value of investments in subsidiaries £2,693,000 (2016: £489,000) and amounts due from subsidiary undertakings £383,000 (2016: £319,000), neither of which were dealt with in the Group result.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

11. INTANGIBLE ASSETS

Group

	Goodwill £'000	Commissions processing software and development costs £'000	Acquired customer relationships £'000	Acquired Appointed Representative and adviser contracts £'000	Total £'000
Cost					
At 1 January 2016	11,520	938	1,183	9,516	23,157
Additions	3	85	–	–	88
At 31 December 2016	11,523	1,023	1,183	9,516	23,245
Additions	15	10	–	–	25
At 31 December 2017	**11,538**	**1,033**	**1,183**	**9,516**	**23,270**
Amortisation					
At 1 January 2016	6,549	881	1,152	9,291	17,873
Charge for the year	–	32	31	79	142
At 31 December 2016	6,549	913	1,183	9,370	18,015
Charge for the year	–	45	–	79	124
At 31 December 2017	**6,549**	**958**	**1,183**	**9,449**	**18,139**
Net book amount					
At 31 December 2017	**4,989**	**75**	**–**	**67**	**5,131**
At 31 December 2016	4,974	110	–	146	5,230

The value of goodwill comprises £1,315,000 allocated to the national segment, and £3,625,000 to the wealth management segment. The value of goodwill allocated to the network segment (£5,738,000) was fully amortised or impaired as at 31 December 2017 and 2016. The addition to goodwill in 2017 of £15,000 (2016: £3,000) arose as a result of certain liabilities assumed on Lighthouse Benefits Limited, a wholly-owned and non-trading subsidiary of the Company, becoming the principal employer to the Corporate Pensions Trust, which Trust incorporates the Group's proprietary Lighthouse Pension Trust ("LPT") product.

The recoverable amount of each CGU is determined by a value in use calculation using cash flow projections based on the Group's latest approved budget for the 2018 financial year and its forecast for financial years to 2022. Long-term cash flows are projected from the 2022 forecast using a nominal growth rate of 1.5 per cent in 2023 and thereafter, being the directors' best estimate of the long-term growth rate of the UK economy. Cash flows, which exclude inflation, are discounted at a nominal, not real, post-tax discount rate of 12 per cent in 2018, increasing with the impact of lower corporation tax rates in 2018 and onwards, all of which equate to a nominal pre-tax discount rate of 15 per cent (2016: 15 per cent.).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

The calculation of values in use is most sensitive to:

- the success of the Group's development plans including successfully addressing any under-performing divisions where appropriate;
- recruitment plans in its national and wealth management segments;
- the level of adviser productivity;
- the assumed rate of long term growth in cash flows; and
- the discount rate applied to the estimated future cash flows.

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

The impairment review undertaken as at 31 December 2017 indicated surpluses over the net book value of the goodwill and intangible assets in respect of the national and wealth management CGUs. Accordingly, no requirement for an impairment charge arose in 2017 (2016: £Nil).

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

	National £'000	Wealth management £'000
A 1% increase in the pre-tax discount rate applied to the estimated future cash flows	(942)	(724)
A 1% decrease in the pre-tax discount rate applied to the estimated future cash flows	1,091	839
A 0.5% decrease in growth rate assumed from 2018 onwards	(565)	(437)
A 0.5% increase in the growth rate assumed from 2018 onwards	1,091	478
A 0.5% increase in assumed annual rate of growth in adviser productivity	957	1,186
A 0.5% decrease in assumed annual rate of growth in adviser productivity	(940)	(1,166)

None of the above sensitivities would, in isolation, require any additional impairment charge to be made. The directors have considered the sensitivity of the impairment testing to a number of credible alternative assumptions, which combine a number of the sensitivities above. Whilst some of these credible alternative scenarios indicate that the headroom of the discounted value in use of the intangible assets over the carrying value as at 31 December 2017 could be reduced significantly, none of these scenarios indicated any need for an impairment adjustment to be made.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Long-leasehold land and buildings £'000	Office & computer equipment £'000	Total £'000
Cost			
At 1 January 2016	1,085	2,062	3,147
Additions at cost	–	126	126
Disposals	–	(7)	(7)
At 31 December 2016	1,085	2,181	3,266
Additions at cost	–	307	307
At 31 December 2017	**1,085**	**2,488**	**3,573**
Depreciation			
At 1 January 2016	44	1,832	1,876
Provided in the year	22	135	157
Disposals	–	(7)	(7)
At 31 December 2016	66	1,960	2,026
Provided in the year	22	128	150
At 31 December 2017	**88**	**2,088**	**2,176**
Net book amount			
At 31 December 2017	**997**	**400**	**1,397**
Net book amount			
At 31 December 2016	1,019	221	1,240

13. INVESTMENTS

Company – investments in subsidiary undertakings

	2017 £'000	2016 £'000
Cost at 1 January	**18,803**	18,724
Equity contribution to subsidiary undertaking in respect of share-based payments	**385**	79
Cost at 31 December	**19,188**	18,803
Provision for impairment at 1 January	**(13,565)**	(14,054)
Movement in impairment provisions during the year	**2,693**	489
Provision for impairment at 31 December	**(10,872)**	(13,565)
Net book value at 31 December	**8,316**	5,238

The movement in the impairment provision detailed above arose as a result of the increase in the net assets of the Company's subsidiary companies derived from the results in 2016 and 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Subsidiary undertakings

The principal trading subsidiary undertakings of the Company, all of which are wholly-owned, are as follows:

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

All interests in the subsidiaries above are held directly by the Company. All companies are incorporated and operate in the UK, are included in the Group's financial statements and are trading. All holdings relate to ordinary share capital in the subsidiaries which are included as such by virtue of the holdings meeting the definition contained within the Companies Act 2006 SI 2008 No.410 Sch.4 para.16(3).

In addition, the Company has a number of non-trading and/or dormant subsidiaries, the latter not being subject to an audit. These are:

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

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

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

Lighthouse Benefits Limited, whilst dormant and non-trading, is the principal employer and sponsor to the Corporate Benefits Trust and is obliged to meet any Trust costs in excess of income derived from the Trust's assets together with wind-up costs that might arise in the event of the discontinuance of that Trust. No such discontinuance event took place during 2017 (2016: none).

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. The undertakings previously given to the FCA that no distributions or non-trading payments would be made without prior discussion with and assent from the FCA were released during 2017. The distributable reserves of Lighthouse Advisory Services Limited exceeded its minimum capital requirement for regulatory purposes as at 31 December 2017 by £4,797,000 (2016: £1,602,000).

14. TRADE AND OTHER RECEIVABLES

	Group 2017 £'000	**Company 2017 £'000**	Group 2016 £'000	Company 2016 £'000
Trade receivables	**2,662**	**–**	2,617	–
Other receivables	**3,146**	**–**	4,087	–
Prepayments and accrued income	**2,379**	**–**	2,300	–
	8,187	**–**	9,004	–

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

Trade receivables include amounts recoverable from advisers in respect of the clawback of indemnity commission and complaints.

Other receivables include amounts recoverable from insurers in respect of the complaints provision (Note 17).

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

	2017 £'000	2016 £'000
At the beginning of the year	**214**	432
Charged to the Consolidated Statement of Comprehensive Income	**31**	14
Utilised/released during the year (including fully provided debt written off)	**(178)**	(232)
At the end of the year	**67**	214

Amounts owed by group undertakings in the Company's Statement of Financial Position are stated net of an impairment provision of £8,580,000 (2016: £8,963,000). The movement in the provision for impairment gave rise to a £383,000 release to profit during the year (2016: £319,000 release).

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**
2017	**2,662**	**159**	**1,432**	**562**	**462**	**19**	**28**
2016	2,617	334	1,079	713	350	25	116

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

15. CASH AND SHORT TERM DEPOSITS

Group

	2017 £'000	2016 £'000
Short-term deposits and current account balances	**8,733**	8,501

Material current account balances are swept to zero on a daily basis. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of up to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £8,733,000 (2016: £8,501,000).

16. TRADE AND OTHER PAYABLES

Current:

	Group 2017 £'000	**Company 2017 £'000**	Group 2016 £'000	Company 2016 £'000
Trade payables	**6,662**	**–**	6,787	–
Other taxation and social security	**637**	**–**	500	–
Other payables	**44**	**–**	29	–
Accruals and deferred income	**1,446**	**–**	1,952	–
Bank loan (secured)	**–**	**–**	34	–
	8,789	**–**	9,302	–

Included within other payables is an amount of £23,177 (2016: £21,774) in respect of unpaid pension contributions.

Non-current:

	Group 2017 £'000	**Company 2017 £'000**	Group 2016 £'000	Company 2016 £'000
Bank loan (secured)	**–**	**–**	405	–

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

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

Corporation tax liabilities are paid in quarterly instalments (where applicable) commencing halfway through the accounting period in which they arise in those subsidiaries that pay corporation tax.

The bank loan in 2016 was secured on the Group's long-leasehold interest in its premises at Woodingdean, near Brighton, and was guaranteed by the Company. It was repayable by quarterly instalments until October 2018 following which the loan would be refinanced or rolled over (with the bank's approval) and was subject to interest at LIBOR plus 2.5 per cent. per annum, payable quarterly in arrears. There were no formal covenants (other than a loan to value limit of 65%) in relation to this loan.

The bank loan was redeemed in full in October 2017 and all related security and guarantees were released.

	2017 £'000	2016 £'000
Outstanding balance at the beginning of the year	**439**	473
Finance interest charged	**10**	14
Repayments in the year including interest	**(36)**	(48)
Redemption of loan including interest	**(413)**	–
Outstanding balance at the end of the year	**–**	439

The interest on the bank loan charged directly to the income statement in the year ended 31 December 2017 was £10,000 (2016: £14,000).

The Group has entered into commercial leases on certain properties, motor vehicles and items of equipment. These leases have a duration of between two and five years (in the case of properties up to the date of the next break clause) with the exception of the long-leasehold interest in Woodingdean referred to above, which is subject to an on-going annual peppercorn rent only.

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

	Group 2017 £'000	**Company 2017 £'000**	Group 2016 £'000	Company 2016 £'000
Future minimum payments due:				
Not later than one year	**318**	**–**	265	–
After one year but not more than five years	**510**	**–**	628	–
In more than five years	**–**	**–**	–	–
	828	**–**	893	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

17. PROVISIONS – GROUP

	Provision for clawback of indemnity commission £'000	Complaints provision £'000	Other provisions £'000	Total £'000
At 1 January 2017				
Current	728	2,227	50	3,005
Non-current	948	2,013	88	3,049
	1,676	4,240	138	6,054
Charge to the Consolidated Statement of Comprehensive Income	259	92	39	390
Utilised during the year	(658)	(1,864)	–	(2,522)
At 31 December 2017	**1,277**	**2,468**	**177**	**3,922**
Analysed as:				
Current	**559**	**2,237**	**50**	**2,846**
Non-current	**718**	**231**	**127**	**1,076**
	1,277	**2,468**	**177**	**3,922**

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 2017. The amount represents the gross obligation and, where these amounts can be recovered from advisers, an asset is recognised. At 31 December 2017, the gross amount of the asset recognised was £959,000 (2016: £1,257,000). In arriving at the amounts recoverable from advisers account is taken of accumulated credit balances on their accounts where appropriate and in accordance with the terms of their contracts.

Complaints provision
The complaints provision represents the expected cost of settling claims from clients and the amount represents the gross obligation and, where these amounts can be recovered from advisers and insurers, an asset is recognised. At 31 December 2017, the gross amount of the asset recognised within trade and other debtors was £2,270,000 (2016: £3,665,000).

Other provisions
Other provisions include £88,000 (2016: £88,000) for estimated dilapidations that may arise at the expiry of the Group's property leases and £89,000 (2016: £50,000) in respect of other commercial obligations.

Provisions – Company
A provision is made against amounts due from subsidiary undertakings where the carrying value of such amount exceeds the net asset value of the subsidiary concerned at the balance sheet date.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk
The Group trades only with established third party financial institutions. In addition, receivable balances (including those due from advisers) are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 14.

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

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

Concentration risk
This is the risk that material loss might arise from an excessive placing of the Group's financial resources with a counter-party that might subsequently default, resulting in loss to the Group. In order to manage this risk, the Group reviews the level of business undertaken with its institutional counterparties on a regular basis with periodic reports being submitted to senior management and the Board.

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

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

With regard to finance revenue, the Group had significant cash balances throughout the year and as at 31 December 2017. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

	Increase/decrease in interest rates £'000	Effect on profit before tax £'000	Effect on equity £'000
For the 12 months ended 31 December 2017	**+1%**	**82**	**82**
	-1%	**1**	**1**
For the 12 months ended 31 December 2016	+1%	76	76
	-1%	(1)	(1)

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 2017 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 2017						
Trade and other payables	**5,655**	**229**	**587**	**191**	**–**	**6,662**
Other financial liabilities	**1,431**	**334**	**345**	**17**	**–**	**2,127**
	7,086	**563**	**932**	**208**	**–**	**8,789**
Year ended 31 December 2016						
Trade and other payables	6,063	247	466	11	–	6,787
Other financial liabilities	1,262	429	797	432	–	2,920
	7,325	676	1,263	443	–	9,707

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 of the Group and the latter are reviewed on a regular basis to ensure that no such exposure arises or, if it does, to enable the Group and the Company to take action to mitigate or eliminate any such potential loss.

Borrowing facilities

Neither the Company nor the Group has any undrawn committed borrowing facilities available at 31 December 2017 (2016: £Nil).

Currency risk

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

Capital management

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

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

The Group has maintained throughout 2017 and 2016, and its policy is to continue to maintain, sufficient capital to meet the regulatory requirements of its regulated subsidiaries.

Treasury management

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

19. SHARE CAPITAL

	2017		2016	
Ordinary shares of 1p each	**Number**	**£'000**	Number	£'000
Authorised	**200,000,000**	**2,000**	200,000,000	2,000
Allotted issued and fully paid				
At the beginning and end of the year	**127,700,298**	**1,277**	127,700,298	1,277

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

Under the Company's Unapproved Share Option Scheme the following options were held at 31 December 2017:

Number of share options at 31 December 2016	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 2017	Exercise price (pence)	Exercise period
135,001	**–**	**–**	**(135,001)**	**–**	**24.0**	**23/10/10 to 22/10/17**
11,162	**–**	**–**	**–**	**11,162**	**21.5**	**12/05/11 to 11/05/18**
146,163	**–**	**–**	**(135,001)**	**11,162**		

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

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

Under the Company's Approved Share Option Scheme the following options were held at 31 December 2017:

Number of share options at 31 December 2016	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 2017	Exercise price (pence)	Exercise period
56,500	**–**	**–**	**(56,500)**	**–**	**20.0**	**06/03/10 to 05/03/17**
65,000	**–**	**–**	**(65,000)**	**–**	**29.0**	**27/07/10 to 26/07/17**
301,539	**–**	**–**	**(301,539)**	**–**	**24.0**	**23/10/10 to 22/10/17**
41,392	**–**	**–**	**–**	**41,392**	**21.5**	**12/05/11 to 11/05/18**
464,431	**–**	**–**	**(423,039)**	**41,392**		

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

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

The following options were granted under the Company's Long Term Incentive plan and held as at 31 December 2017:

Number of share options at 31 December 2016	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 2017	Exercise price (pence)	Exercise period
Approved						
5,714,102(*)	**–**	**–**	**–**	**5,714,102**	**1.0**	**10/12/18 to 10/12/25**
Unapproved						
1,285,898(*)	**–**	**–**	**–**	**1,285,898**	**1.0**	**10/12/18 to 10/12/25**
Approved						
–	**2,046,223**	**–**	**–**	**2,046,223**	**1.0**	**02/06/20 to 02/06/27**
Unapproved						
–	**3,117,749**	**–**	**–**	**3,117,749**	**1.0**	**02/06/20 to 02/06/27**
7,000,000	**5,163,972**	**–**	**–**	**12,163,972**		

(*) The number of share options as 31 December 2016 include a reclassification of 600,000 options from approved to unapproved.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

Number of share options at 31 December 2016	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 2017	Exercise price (pence)	Exercise period
Approved						
–	5,714,102(*)	–	–	5,714,102	1.0	10/12/18 to 10/12/25
Unapproved						
–	1,285,898(*)	–	–	1,285,898	1.0	10/12/18 to 10/12/25
–	7,000,000	–	–	7,000,000		

(*) The number of share options granted in the year ended 31 December 2016 include a reclassification of 600,000 options from approved to unapproved.

20. SHARE-BASED PAYMENTS

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

The approved scheme for employees
This plan is open to all employees once they have been in service for a length of time as from time to time agreed by the Board. The options will vest if the employee remains in service for a period of three years from the date of the option 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.

Long Term Incentive Plan ("LTIP")
On 10 December 2015, the Company established a new Long Term Incentive Plan ("LTIP") for the benefit of its executive directors and senior management employees. The LTIP contains provisions in respect of vesting and exercise of options for variations in the share capital of the Company and for a change in control. The directors have received advice that, as at the date of grant of the LTIP options, the Company's shares qualified under the Enterprise Management Incentive ("EMI") legislation. Under that legislation, options granted to an individual employee up to an aggregate market value of £250,000 constitute approved options with the remainder being unapproved.

The maximum number of new ordinary shares that can be issued under the LTIP and the Company's other employee share plans is capped at 15 per cent. of the Company's issued share capital within a 10 year period. The aggregate number of options outstanding as at 31 December 2017, 12,216,526, amounted to 9.6 per cent. of the Company's issued share capital.

The Company has granted two tranches of new share options under the LTIP as follows:

LTIP Tranche 1
On 10 December 2015, the Company granted new share option awards to its three executive directors comprising a total of 6,400,000 new options (out of a total of 7,000,000 new share options awarded in total to directors and senior management) over new ordinary shares in the Company. These options would vest after the expiry of the measurement period, being three years, subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share.

Half of the options were subject to an earnings per share ("EPS") performance condition. The threshold vesting level (20 per cent. of the total options granted for this part of the award) was a basic EPS of 0.7 pence per ordinary share in the year ended 31 December 2017 and full vesting would take place should basic EPS for that year be at least 1.4 pence per ordinary share with straight-line vesting in between these points. The EPS figure used at both the start and end of the performance measurement period was to be an adjusted EPS figure, calculated after a normalised tax charge. The adjusted EPS charge for 2017 was 1.59 pence per ordinary share with the equivalent figure for 2016 being 1.19 pence per ordinary share.

The remaining half of the options were subject to a total shareholder return (share price performance plus dividends added back) performance condition. The threshold vesting level (again for 20% of the total options granted for this part of the award) will be at 14 pence per ordinary share at the relevant measurement date, being 10 December 2017, with full vesting at 22 pence per ordinary share and straight-line vesting in between these points.

On 24 January 2018 the Remuneration Committee confirmed that the full allocation of share options awarded under LTIP 1 would vest to the relevant individual award holders at the end of the measurement period or earlier as provided under the LTIP Rules.

LTIP Tranche 2
On 2 June 2017, the Company granted new share option awards to its three executive directors comprising a total of 3,500,778 new options (out of a total of 5,163,972 new share options awarded in total to directors and senior management) over new ordinary shares in the Company. These options would vest after the expiry of the measurement period, being three years, subject to continued employment and the meeting of objective performance conditions, outlined below. The options are exercisable at a price of 1 pence per new ordinary share.

The terms and performance conditions are similar to those of Tranche 1 save that the EPS targets (for 50 per cent. of the total awards) were set for the year ending 31 December 2019 at a threshold level of 1.5 pence per ordinary share and an upper level for full allocation of that part of the award of 2.2 pence per ordinary share. Similarly, the total shareholder return targets were set as at the end of that year at a threshold level of 23 pence per ordinary share for a 20 per cent. vesting of that part of the award and an upper level for full vesting of that part of the award of 31 pence per ordinary share. Amounts to be vested would again be calculated on a straight-line basis for actual levels achieved between the threshold and upper levels.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

	2017 Number	**2017 WAEP (pence)**	2016 Number	2016 WAEP (pence)
Outstanding at 1 January	**7,610,594**	**2.84**	7,475,166	4.06
Granted during the year	**5,163,972**	**1.00**	600,000	1.00
Forfeited/expired during the year	**(558,040)**	**24.18**	(464,572)	20.09
Outstanding at 31 December	**12,216,526**	**1.09**	7,610,594	2.84
Exercisable 31 December	**52,554**	**21.50**	610,594	23.95

For the share options outstanding at 31 December 2017, the weighted average remaining contractual life is 8.54 years (2016: 8.29 years). The range of exercise prices for options outstanding at 31 December 2017 was 1 pence - 21.5 pence (2016: 1 pence - 29 pence).

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

	2017 £'000	2016 £'000
Fair value of options	**385**	79

(d) **Fair value of options granted during the year**
The options granted in 2017 had a fair value at grant date of 11.7 pence per share (2016: 7.17 pence per share).

21. SPECIAL NON-DISTRIBUTABLE RESERVE

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

22. COMMITMENTS AND CONTINGENT LIABILITIES – CAPITAL COMMITMENTS

The Group had capital commitments of £321,000 as at 31 December 2017 (2016: £331,000).

Principal areas of activity

The principal activities of the Group are the provision of financial advice on retail financial investments and regulatory authorisation and related services to financial advisers operating from locations across the UK, and the sponsorship and provision of innovative financial solutions to the Group's customers.

The Group comprises three operating segments:

National/Affinity:

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

Wealth Management:

- Highly-skilled advisers operating under **LighthouseCarrwood** (incorporating **Lighthouse Group Employee Benefits**) and **LighthouseWealth** brands.
- Employed and self-employed advisers provide independent, specialist advice on investments, pensions and employee benefits, mainly through professional and other affinity and employer relationships, to high net worth individuals and corporate clients.
- Instrumental in addressing service provision gaps inherent within the workplace solutions and auto-enrolment markets.

Communities/Network:

- **Lighthouse Advisory Services**, a network offering support services to self-employed advisers.
- High quality advisers operating either as self-employed sole traders or within Appointed Representative firms and using their own brands.
- The Group provides regulatory cover, risk management, professional indemnity insurance and income collection and processing services.

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