Numis Corporation Plc Preliminary Results
for the year ended 30 September 2017

London, 6 December 2017: Numis Corporation Plc ("Numis") today announces preliminary results for the year ended 30 September 2017.

Highlights

	2017	2016	Change
Revenue	£130.1m	£112.3m	+16%
Total income	£133.5m	£116.1m	+15%
Profit before tax	£38.3m	£32.5m	+18%
Earnings per share	27.4p	23.5p	+17%
Total dividend for the year	12.0p	12.0p	-
Cash balances	£95.9m	£89.0m	+8%
Net assets	£133.6m	£129.1m	+4%

- Revenue up 16% to £130.1m, a record high for the Group with Equities revenue up 17% to £44.8m and Corporate Broking and Advisory ("CB&A") revenue up 15% to £85.3m.
- Profit before tax up 18% to £38.3m, including £3.4m of net gains on our strategic investment portfolio.
- Earnings per share up 17% to 27.4p.
- Total dividend for the year maintained at 12.0p (2016: 12.0p) whilst cash outflows in respect of share repurchases hit record highs totalling £22.9m (2016: £6.7m).
- Our best-in-class research, sales and execution services were recognised in the 2017 Extel survey, in which we were ranked No 1 UK Small & Mid Cap Brokerage Firm for the 5th year in a row.
- Completed 101 transactions which included equity fund raises totalling £2.5 billion (up 33% on prior year), 37 advisory transactions for our corporate clients, and 17 block trades in aggregate totalling £0.9 billion. Our corporate client list continues to grow and now stands at 202 companies with an average market capitalisation of £726m, up 28% year-on-year.

Alex Ham and Ross Mitchinson, Co-Chief Executive Officers, said:

"Following a strong second half, we are delighted to announce that Numis has generated record full year revenues in both its Equities and Corporate Broking and Advisory businesses. Our deal pipeline is strong and we remain determined to support ambitious companies of all sizes seeking capital and high quality advice to grow, whilst simultaneously investing in our people, platform and relationships. Trading in our new financial year has started well and gives us confidence as we head into 2018. This is testament to our exceptional colleagues and the excellent relationships that we enjoy with both our corporate and institutional clients."

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Notes for Editors

Numis, the holding company of Numis Securities Limited, is a leading independent corporate advisory and stockbroking group offering a full range of research, execution, corporate broking and advisory services to companies quoted in the UK and their investors.

Review of Performance

Overall Performance
We are pleased to report that the business generated record revenues, with all revenue streams contributing to this success. During the year ended 30th September 2017, revenues increased by 16% to £130.1m (2016: £112.3m) and profit before tax increased by 18% to £38.3m (2016: £32.5m). Profit before tax includes £3.4m of gains recognised on investments held outside of our market making business (2016: £3.8m). Our balance sheet remains strong with cash balances totalling £95.9m (2016: £89.0m) while net assets have increased to £133.6m (2016: £129.1m).

Market Conditions
Market conditions provided a positive backdrop for trading in UK equities overall. Steadily rising UK equity indices coupled with relatively low volatility resulted in secondary trading by value on the London Stock Exchange growing almost 16% year-on-year and equity fund raising activity increasing 14%. These favourable conditions contributed, in part, to both a significant uplift in equity issuance revenue delivered by our Corporate Broking and Advisory business, and a strong performance by our Equities business which maintained or improved its ranking across most sectors of the market. We also saw a return of M&A activity during our second half as the relative weakness of Sterling combined with availability of cheap finance fuelled activity in our corporate client base which prompted good volumes of both advisory and capital raising mandates in the year.

Corporate Broking & Advisory ("CB&A")
It is a key part of our culture to build long-term relationships with our corporate clients, endeavouring to provide them with service of exceptional quality which is tailored to their needs. We pride ourselves on the strength of these relationships, which we believe is reflected in the momentum that we enjoy both in client numbers, as well as longevity of relationship and in fee generation over time.

Revenue from CB&A activities totalled £85.3m (2016: £73.9m) being the highest in the Group's history. This performance was broadly based and included 7 IPOs, 38 secondary fund raises, 37 pure advisory roles and 17 block trades and secondary sell-downs. Importantly, transaction volumes in non-primary activity increased to 94 (2016: 73) reflecting the quality of our client base. Our market share of UK ECM activity remains impressive and we were ranked #1 in the UK ECM league tables for the calendar year to 30 September 2017.

We continue to attract high quality corporate clients in order to offset inevitable departures resulting from M&A and ended the year with 202 companies for whom we act as broker. The average market capitalisation of our corporate client base has grown by 28% year-on-year and now stands at £726m but it is important to recognise that the median is £322m and we that we remain committed to the small cap space. This is reflected in our client wins during the year, which have included businesses from £20m market cap to well over £1bn market cap. During the year we rose to #1 ranked Broker overall by total number of stock market clients and remain ranked #2 Adviser overall by total number of stock market clients as per the most recent Corporate Advisers Rankings Guide.

Notable deals completed during the year included IPOs for Luceco, Premier Asset Management, Sherborne Investors and Alfa Financial along with secondary raises for our corporate clients including INPP, Learning Technologies Group, Bluefield Solar Income Fund, Accesso, IP Group and John Menzies. In addition, we raised £377m through private placements for Accelerated Digital Ventures and Klarna and now act as financial advisor to two unquoted companies. In total, we raised £2.5bn of equity capital during the year (2016: £1.9bn).

Our corporate advisory capabilities continue to grow. We completed 37 pure advisory roles during the period including the acquisition by the McColl's Retail Group of 298 stores from the Co-operative Group, John Menzies acquisition of ASIG, the recommended offer by Madison Dearbom Partners for Powerflute, the £332m recommended offer by Altrad Investment Authority for Cape Plc and Micro Focus' $8.8bn merger with Hewlett Packard's Enterprise's Software business segment.

We have also built up a strong track record in the successful execution of block trades and secondary sell downs. During the year, we executed 17 such transactions with an aggregate value of £0.9bn which included a £321m sell down for Countryside Properties and a £206m sell down for Forterra Plc.

Against a backdrop of an ever deeper and more developed pool of capital that is happy to own unlisted securities, we continue to develop our private placement capabilities through our growing Venture Broking team. This is an exciting growth area, which plays well to our strengths and our desire to play a key role in developing the capital markets which support this segment of the market.

Equities
High quality research and sales is at the heart of our Equities business. It creates relationships based on trust with our institutional clients and is at the core of our powerful international distribution capability. Our sector analysts cover approximately 360 companies across 16 sectors, whilst our Investment Funds research team covers around 360 investment companies and funds. Our highly regarded sales team provides a service to more than 500 active institutional clients across the UK, Europe, the Americas and Australia. Data from Starmine and the various alpha capture systems continue to demonstrate the impressive value we add to our institutional clients.

Our US office continues to provide a best-in-class service in marketing UK equities to major North American institutional investors, including managing a significant number of roadshows and reverse roadshows. Our distribution offering also extends to the Private Client Fund Managers ("PCFM") through our PCFM team, who access a network of over 3,000 active fund managers at 200 PCFM houses in the UK, who collectively can be a powerful pool of liquidity.

We provide execution services in over 700 stocks, of which over 500 are listed on the Main Market of the London Stock Exchange. During the year we had #1 market share in 122 stocks (FY 2016: 127) across these markets, and were a top 3 provider in a further 85 stocks (FY 2016: 92). With access to multiple trading venues and liquidity providers, we are able to deliver an exceptionally strong execution capability to our institutional clients.

Combined institutional commission and trading revenues for the year were impressive, totalling £44.8m (2016: £38.4m), an increase of 17%, surpassing the Group's previous record level achieved in 2014. This was achieved against a backdrop of generally positive markets and the continued threat from electronic trading systems and dark pools of liquidity.

Our well-resourced market-making and sales-trading teams ensure that we are well placed to source liquidity on behalf of our institutional clients, which often requires skill and human effort that cannot be found in a dark pool or standalone electronic trading venue. The 12% year-on-year growth in institutional commissions was achieved despite changes to institutional broker payment models as they look to embrace MiFID II, which is due to be implemented in January 2018. Our trading revenues saw a 39% year-on-year increase and were achieved with levels of capital usage that were only moderately higher than prior year.

Costs and People
Administrative expenses for the year totalled £95.4m (2016: £83.6m). Compensation costs as a percentage of revenue have shown a modest increase to 53% (2016: 52%). This is wholly attributable to an increase in share award related charges which, in part, reflects the increase in the Company's share price over the year ended 30 September 2017 but also share awards granted towards the end of 2016.

Non-compensation costs comprise expenses incurred in the normal course of business, the most significant of which relate to technology, information systems, market data, brokerage, clearing and exchange fees and occupancy. The year-on-year increase of £1.7m (7%) was driven mainly by investment in our technology platform, MiFID II and other regulatory project work together with increased secondary market activity which directly impacts brokerage, clearing and exchange fees.

Average headcount increased to 220 (2016: 213) and we ended the year with a headcount of 235 (2016: 220). We continue to prioritise investment in and support of our talent pool in order to develop our staff at all levels of the organisation. This focus was, we believe, instrumental in Numis being voted #1 UK Small & Mid Cap Brokerage Firm by both companies and institutions for the fifth year in succession in the 2017 Extel Survey.

Strategic Investments
The value of our strategic investments total £28.1m (2016: £29.8m). Of this value, £14.0m is in quoted securities, whilst £14.1m is invested in unquoted securities. The movement during the year reflects new investments and follow-on funding totalling £1.3m, disposals totalling £5.8m and £2.8m of net fair value uplifts of which the majority came from our quoted securities. Disposals during the year were in respect of quoted holdings and reflect the fact that we do not view Numis as a natural long term investor in quoted companies. However, we continue to believe the majority of our unquoted investments are complementary to our existing business and that they offer an exciting opportunity for the Group to grow its presence in areas in which it has expertise or a relevant network of investors. We will explore opportunities for re-cycling the portfolio where we see attractive investment propositions which are strategically relevant.

Financial Position
Our balance sheet strengthened further during the year, with cash balances totalling £95.9m (2016: £89.0m), while net assets have increased to £133.6m (2016: £129.1m). Cash flows in 2017 benefitted from increased revenue and a net divestment of our strategic investment portfolio. These movements were offset by an increase in outflows relating to annual incentive payments and the absence of any material movement in the market making positions which generated material inflows in 2016. Operational cash inflows of £50.4m (2016: £53.4m) enabled a combined outflow to shareholders through dividends and share buy-backs of £36.4m (2016: £19.6m) which is at its highest level in the Group's history.

Our regulatory capital requirement, including regulatory buffers, sits at around £60m. The Board continues to review the amount of capital we hold over and above our minimum regulatory requirement together with cash balances that may be deemed to be surplus to the needs of the business. During 2017 we spent £22.9m (2016:£6.7m) buying back our own shares. At a minimum, our buyback program will continue in order to avoid the prospective dilutive impact attached to unvested share awards.

Dividend and Shareholder Returns
The Board's intention is to use earnings and cash flow to underpin shareholder returns, through a combination of dividends and share buybacks. Our goal is to pay a stable ordinary dividend and re-invest in our platform, pursue selective growth opportunities and return excess cash to shareholders subject to capital and liquidity requirements and market outlook. In view of this approach and, in particular, the cash allocated to share repurchases during the course of the year, the Board is recommending a final dividend of 6.5p per share (2016: 6.5p per share) which results in a total dividend for the year of 12.0p per share (2016: 12.0 per share).

Over the medium term, we intend not only to repurchase shares to offset the dilutive impact of unvested share awards, but to reduce the overall number of shares in issue as we focus on overall shareholder returns.

Board Changes
On 21 March 2017, Alan Carruthers succeeded Gerald Corbett as Non-Executive Chairman. On 8 May 2017, Oliver Hemsley retired from the Board following the succession of the Chief Executive Offer role which completed in September 2016, eight months earlier. Oliver founded the business in the early 1990's and built it over 25 years to become one of the leading broking and advisory firms in the UK. He remains with the Company in an advisory capacity.

Two further changes occurred during the year, namely that Lorna Tilbian (Executive Director) and Marcus Chorley (Executive Director) both stood down from the Board with effect from 30 September 2017. Lorna has decided to leave the Company after more than sixteen years of service and leaves the business on 31 December 2017. Marcus remains within the business in his role as Chairman of Equities and continues to serve on the board of Numis Securities Limited.

One further prospective change was announced in July 2017, namely that Simon Denyer (Finance Director) will be leaving the business in January 2018. He will be succeeded by Andrew Holloway whose details were included in the announcement of 28 July 2017. The Board is enormously grateful to both Simon and Lorna for the significant contribution they have each made to the development and success of Numis. We also thank Marcus for his service to the Board and look forward to his continuing valued contribution to the Equities business.

The cumulative result of these changes is that the balance between Executive and Non-Executive Directors is restored to that seen prior to the start of our Chief Executive succession process whilst maintaining the necessary oversight and experience required.

Current Trading and Outlook
"Our new financial year has started well as we have benefited from the momentum we experienced in the second half of 2017. We have completed 11 fund raises to-date, a number of M&A transactions and revenue from the Equities business is currently ahead of the 2017 daily run-rate.

Our deal pipeline is strong and we remain determined to support ambitious companies of all sizes seeking capital and high quality advice to grow, whilst simultaneously investing in our people, platform and relationships. Whilst we cannot predict the direction of the market or the health of the equity issuance environment, there is good momentum in the business and we look forward to the future with confidence."

Alex Ham & Ross Mitchinson
Co-Chief Executives
6 December 2017

Consolidated Income Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Note	2017 £'000	2016 £'000
Revenue	3	130,095	112,335
Other operating income	4	3,431	3,759
Total income		**133,526**	**116,094**
Administrative expenses	5	(95,395)	(83,600)
Operating profit		**38,131**	**32,494**
Finance income		293	427
Finance costs		(105)	(390)
Profit before tax		**38,319**	**32,531**
Taxation		(7,942)	(6,132)
Profit after tax		**30,377**	**26,399**
Attributable to:			
Owners of the parent		30,377	26,399
Earnings per share			
Basic	6	27.4p	23.5p
Diluted	6	25.9p	22.4p
Dividends	7	(13,473)	(12,861)

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 £'000	2016 £'000
Profit for the year	30,377	26,399
Exchange differences on translation of foreign operations	21	630
Other comprehensive income for the year, net of tax	**21**	**630**
Total comprehensive income for the year, net of tax, attributable to owners of the parent	**30,398**	**27,029**

Consolidated Balance Sheet
AS AT 30 SEPTEMBER 2017

	Note	2017 £'000	2016 £'000
Non current assets			
Property, plant and equipment		2,998	3,734
Intangible assets		33	122
Deferred tax	8a	3,116	1,666
		6,147	**5,522**
Current assets			
Trade and other receivables	8b	255,933	170,490
Trading investments	8c	47,424	48,453
Stock borrowing collateral	8d	8,606	3,901
Derivative financial instruments		35	616
Cash and cash equivalents	8f	95,852	89,002
		407,850	**312,462**
Current liabilities			
Trade and other payables	8b	(254,799)	(173,031)
Financial liabilities	8e	(19,875)	(12,293)
Current income tax		(5,697)	(3,571)
		(280,371)	**(188,895)**
Net current assets		**127,479**	**123,567**
Non current liabilities			
Deferred tax	8a	-	(12)
Net assets		**133,626**	**129,077**
Equity			
Share capital		5,922	5,922
Share premium	8g	-	38,854
Other reserves		13,416	8,238
Retained earnings		114,288	76,063
Total equity		**133,626**	**129,077**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 October 2016	5,922	38,854	8,238	76,063	129,077
Profit for the year				30,377	30,377
Other comprehensive income			21	-	21
Total comprehensive income for the year	-	-	21	30,377	30,398
Share premium cancellation		(38,854)		38,854	-
Dividends paid				(13,473)	(13,473)
Net movement in Treasury shares				(17,238)	(17,238)
Movement in respect of employee share plans			5,157	(546)	4,611
Deferred tax related to share based payments				251	251
Transactions with shareholders	-	(38,854)	5,157	7,848	(25,849)
Balance at 30 September 2017	**5,922**	**-**	**13,416**	**114,288**	**133,626**

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 October 2015	5,922	38,854	5,631	65,112	115,519
Profit for the year				26,399	26,399
Other comprehensive income			630	-	630
Total comprehensive income for the year	-	-	630	26,399	27,029
Dividends paid				(12,861)	(12,861)
Net movement in Treasury shares				1,470	1,470
Movement in respect of employee share plans			1,977	(3,559)	(1,582)
Deferred tax related to share based payments				(498)	(498)
Transactions with shareholders	-	-	1,977	(15,448)	(13,471)
Balance at 30 September 2016	**5,922**	**38,854**	**8,238**	**76,063**	**129,077**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Note	**2017** **£'000**	**2016** **£'000**
Cash flows from operating activities	9	50,410	53,398
Interest paid		(14)	(182)
Taxation paid		(7,027)	(4,481)
Net cash from operating activities		**43,369**	**48,735**
Investing activities			
Purchase of property, plant and equipment		(493)	(346)
Purchase of intangible assets		-	-
Interest received		295	430
Net cash (used in)/from investing activities		**(198)**	**84**
Financing activities			
Purchases of own shares – Treasury		(19,588)	(3,719)
Purchases of own shares – Employee Benefit Trust		(3,298)	(3,000)
Dividends paid		(13,473)	(12,861)
Net cash used in financing activities		**(36,359)**	**(19,580)**
Net movement in cash and cash equivalents		**6,812**	**29,239**
Opening cash and cash equivalents		89,002	59,591
Net movement in cash and cash equivalents		6,812	29,239
Exchange movements		38	172
Closing cash and cash equivalents		**95,852**	**89,002**

Notes to the Financial Statements

1. Basis of preparation and accounting policies

Basis of preparation

The consolidated financial information contained within these financial statements is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 30 September 2017 will be delivered to the Registrar of Companies in due course. The annual report and statutory accounts will be posted to shareholders on 2 January 2018 and further copies will be available from the Company Secretary at the Company's registered office. The Company's Annual General Meeting will be held on 6 February 2018.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant judgements and estimates applied by the Group in these preliminary results have been applied on a consistent basis with the statutory accounts for the years ended 30 September 2016 and 30 September 2015. Although such estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those of estimates.

The consolidated financial information contained within these financial statements has been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The consolidated financial information contained within these financial statements has been prepared on a going concern basis as the Directors have satisfied themselves that, at the time of approving the financial information and having taken into consideration the strength of the Group balance sheet and cash balances, the Group has adequate resources to continue in operational existence for at least the next twelve months.

Accounting policies

The consolidated financial information contained within these financial statements has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, and are in accordance with the accounting policies that were applied in the Group's statutory accounts for the year ended 30 September 2016.

2. Segmental analysis

Geographical information

The Group is managed as an integrated corporate advisory and broking business and although there are different revenue types (which are separately disclosed in note 3) the nature of the Group's activities is considered to be subject to the same and/or similar economic characteristics. Consequently the Group is managed as a single business unit.

The Group earns its revenue in the following geographical locations:

	2017 **£'000**	**2016** **£'000**
United Kingdom	119,867	102,684
United States	10,228	9,651
	130,095	**112,335**

There are no clients who accounted for more than 10% of revenues in the year ended 30 September 2017 (2016: Nil).

The following is an analysis of the carrying amount of non-current assets (excluding financial instruments and deferred tax assets) by the geographical area in which the assets are located:

	2017 **£'000**	**2016** **£'000**
United Kingdom	2,982	3,744
United States	49	112
	3,031	**3,856**

Other information
In addition, the analysis below sets out the revenue performance and net asset split between our core advisory & stockbroking business and the small number of equity holdings which constitute our investment portfolio.

	2017 £'000	2016 £'000
Net institutional income	44,799	38,419
Total corporate transaction revenues	73,718	64,293
Corporate retainers	11,578	9,623
Revenue from Corporate Advisory & Broking (see note 3)	**130,095**	**112,335**
Strategic investment activity net gains	3,431	3,759
Contribution from investing activities	**3,431**	**3,759**
Total	**133,526**	**116,094**
Net assets		
Corporate advisory & broking	103	2,573
Cash collateral at clearing houses	9,530	7,670
Investing activities	28,141	29,832
Cash balances	95,852	89,002
Total net assets	**133,626**	**129,077**

3. Revenue

	2017 £'000	2016 £'000
Net trading gains	9,047	6,496
Institutional commissions	35,752	31,923
Net institutional income	44,799	38,419
Corporate retainers	11,578	9,623
Advisory fees	16,471	16,261
Placing commissions	57,247	48,032
	130,095	**112,335**

4. Other operating income
Other operating income represents net gains made on investments which are held outside of the market making portfolio. The majority of the net gain recorded in 2017 reflects price movements and dividend income in respect of quoted holdings.

5. Administrative expenses

	2017 £'000	2016 £'000
Wages and salaries	48,171	43,651
Social security costs	8,160	6,592
Compensation for loss of office	132	487
Other pension costs	2,082	1,923
Share based payments	10,454	6,229
Non compensation costs	26,396	24,718
	95,395	**83,600**

The average number of employees during the year increased to 220 (2016: 213) with the number as at 30 September 2017 totalling 235 (30 September 2016: 220). Compensation costs as a percentage of revenue have increased to 53% (2016: 52%) and on a per head basis show a 13% increase year-on-year. The per head variable pay component has increased 29% whereas the fixed cost component has risen just 1%. The increase in the variable pay component was partly driven by share price appreciation but also by shares awards granted towards the end of 2016.

Non-compensation costs comprise expenses incurred in the normal course of business, the most significant of which relate to technology, information systems, market data, brokerage, clearing and exchange fees. Investment relating to regulatory requirements and in respect of our platform continue to impact such costs.

6. Earnings per share

Basic earnings per share is calculated on a profit after tax of £30,377,000 (2016: £26,399,000) and 110,919,356 (2016: 112,255,294) ordinary shares being the weighted average number of ordinary shares in issue during the year. Diluted earnings per share takes account of contingently issuable shares arising from share scheme award arrangements where their impact would be dilutive. In accordance with IAS 33, potential ordinary shares are only considered dilutive when their conversion would decrease the profit per share or increase the loss per share from continuing operations attributable to the equity holders.

The calculations exclude shares held by the Employee Benefit Trusts on behalf of the Group and shares held in Treasury.

	2017 Number Thousands	2016 Number Thousands
Weighted average number of ordinary shares in issue during the year – basic	110,919	112,255
Dilutive effect of share awards	6,328	5,755
Diluted number of ordinary shares	**117,247**	**118,010**

7. Dividends

	2017 £’000	2016 £’000
Final dividend for year ended 30 September 2015 (6.00p)		6,713
Interim dividend for year ended 30 September 2016 (5.50p)		6,148
Final dividend for year ended 30 September 2016 (6.50p)	7,308	
Interim dividend for year ended 30 September 2017 (5.50p)	6,165	
Distribution to equity holders of Numis Corporation Plc	**13,473**	**12,861**

The Board has proposed a final dividend of 6.5p per share for the year ended 30 September 2017. This has not been recognised as a liability of the Group at the year end as it has not yet been approved by the shareholders. These preliminary results do not reflect this dividend payable.

The final dividend for 2017 will be payable on 9 February 2018 to shareholders on the register of members at the close of business on 15th December 2017, subject to shareholder approval at the Annual General Meeting on 6th February 2018. Shareholders have the option to elect to use their cash dividend to buy additional shares in Numis through a Dividend Re-Investment Plan (DRIP). The details of the DRIP will be explained in a circular to accompany our 2017 Annual Report and Accounts, which will be circulated to all shareholders on 2nd January 2018.

8. Balance sheet items

(a) *Deferred tax*

As at 30 September 2017 deferred tax assets totalling £3,116,000 (2016: £1,666,000) have been recognised reflecting managements' confidence that there will be sufficient levels of future taxable gains against which the deferred tax asset can be utilised. The deferred tax asset principally comprises amounts in respect of share based payments. A deferred tax asset of £1,104,000 (2016: £457,000) relating to unrelieved trading losses incurred has not been recognised as there is insufficient supportable evidence within the relevant legal entity that there will be taxable gains in the future against which the deferred tax asset could be utilised.

(b) *Trade and other receivables and Trade and other payables*

Trade and other receivables and Trade and other payables principally comprise amounts due from and due to clients, brokers and other counterparties. Such amounts represent unsettled sold and unsettled purchased securities transactions and are stated gross. The magnitude of such balances varies with the level of business being transacted around the reporting date. Included within Trade and other receivables are cash collateral balances held with securities clearing houses of £9,530,000 (2016: £7,670,000).

(c) *Trading investments*

Included within trading investments is £28,141,000 (2016: £29,832,000) of investments held outside of the market making portfolio. Net fair value increases amounting to £2.8m and dividend income of £0.4m were offset by net disposals of £4.9m.

As at 30 September 2017 no trading investments had been pledged to institutions under stock borrowing arrangements (2016: nil).

(d) *Stock borrowing collateral*

The Group enters stock borrowing arrangements with certain institutions which are entered into on a collateralised basis with cash advanced as collateral. Under such arrangements a security is purchased with a commitment to return it at a future date at an agreed price.

The securities purchased are not recognised on the balance sheet. An asset is recorded on the balance sheet as stock borrowing collateral at the amount of cash collateral advanced.

On the rare occasion where trading investments have been pledged as security these remain within trading investments and the value of the security pledged disclosed separately except in the case of short-term highly liquid assets with an original maturity of 3 months or less, which are reported within cash and cash equivalents with the value of security pledged disclosed separately.

(e) *Financial liabilities*

Financial liabilities comprise short market making positions and include shares listed on the London Stock Exchange Main Market and quoted on the AIM market as well as overseas exchanges. In conjunction with the long market making positions included within Trading investments, these two combined represent the net position of holdings within the market making book which, year on year, reduced to £0.6m short as at 30 September 2017 (2016: £7.0m long). The magnitude of financial liabilities will depend, in part, on the nature and make-up of long positions combined with the market makers' view of those long positions over the short and medium term, taking into consideration market volatility, liquidity, client demand and future corporate actions.

(f) *Cash and cash equivalents*
Cash balances reflect increased levels of revenue and operating profit whilst maintaining dividend distributions (£13.5m cash outflow) and share buy-backs through the repurchase of shares into Treasury and the Employee Benefit Trust (£22.9m cash outflow).

(g) *Share premium account*
At a general meeting held on 30 August 2017 shareholders passed a special resolution approving the cancellation of the entire amount standing to the credit of the share premium account, subject to confirmation by the High Court. On 20 September 2017 the confirmation from the High Court was issued, the share premium account was cancelled and an amount of £38,853,868 was credited to a distributable reserve.

9. Reconciliation of profit before tax to cash flows from operating activities

	2017 **£000**	**2016** **£000**
Profit before tax	38,319	32,531
Net finance income	(188)	(37)
Depreciation charges on property, plant and equipment	1,226	1,126
Amortisation charges on intangible assets	89	125
Share scheme charges	10,454	6,229
Decrease in current asset trading investments	1,029	9,168
Increase in trade and other receivables	(85,583)	(10,476)
Increase in stock borrowing collateral	(4,705)	(3,079)
Increase in trade and other payables	89,188	17,744
Decrease in derivatives	581	67
Cash flows from operating activities	**50,410**	**53,398**

Cash flows in 2017 benefitted from increased revenue and a net divestment of our strategic investment portfolio. These movements were offset by an increase in outflows relating to annual incentive payments and the absence of any material movement in the market making positions which generated material inflows in 2016.