

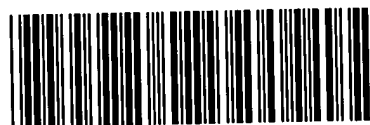
Registered number: 02117968

SERIF (EUROPE) LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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## **SERIF (EUROPE) LIMITED**

### **COMPANY INFORMATION**

**Directors**

G Bates  
J Bryce  
A Hewson

**Company secretary**

G Bates

**Registered number**

02117968

**Registered office**

Unit 12  
Wilford Industrial Estate  
Nottingham  
NG11 7EP

**Independent Auditors**

PKF Cooper Parry Group Limited  
Chartered Accountants & Statutory Auditors  
Sky View  
Argosy Road  
East Midlands Airport  
Castle Donington  
Derby  
DE74 2SA

## **SERIF (EUROPE) LIMITED**

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## SERIF (EUROPE) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

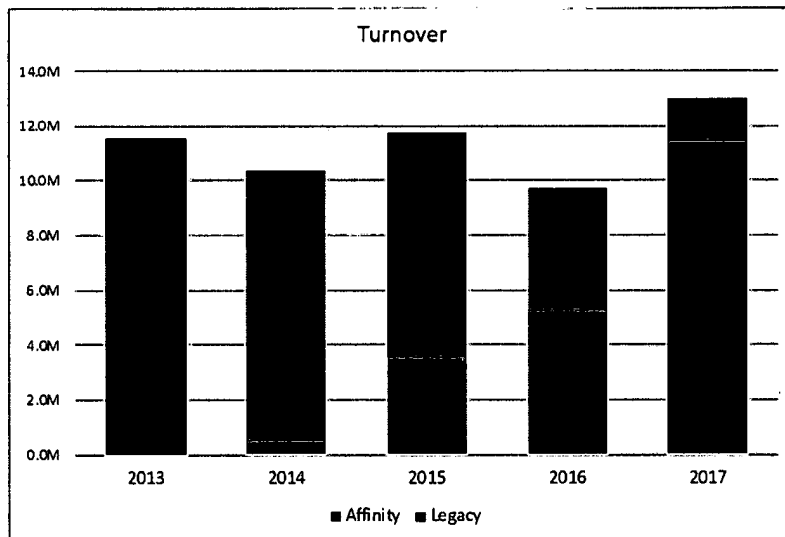
#### Introduction

The principal activity of the company is the supply and development of world-class creative software applications for the professional market.

#### Business review

The main strategy of the company over recent years has been to completely transition from its legacy activities (primarily physical software sales, third party software sales and the sale of hardware and gadgets) to focus entirely on its new range of professional 'Affinity' branded creative applications.

The Affinity software was built on an entirely new codebase with the workflow of creative professionals in mind. Setting a new, higher standard for creative design apps, the software is lightning fast, free from bloat, will ultimately cover the core disciplines of photo editing, vector drawing and desktop publishing, and uses exactly the same file format between applications, devices and across operating systems. In 2017 the transition to this new innovative professional graphics software was largely complete, with nearly 90% of the company's turnover coming from the sale of Affinity applications.

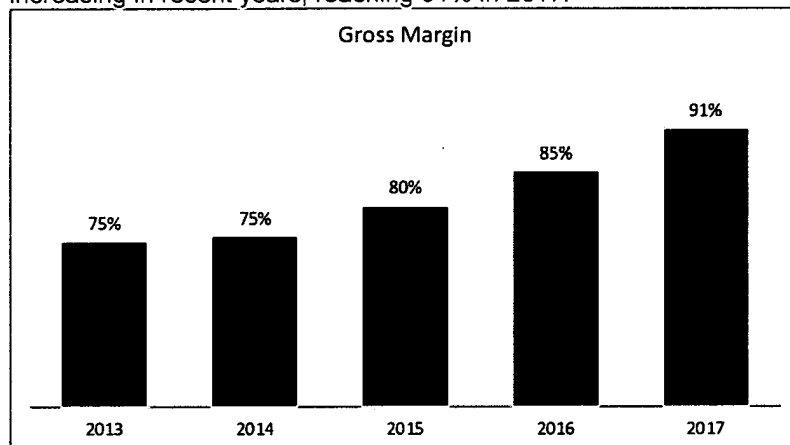


The Affinity range has been extremely successful, experiencing substantial growth since launching in 2014. In 2017 alone sales of Affinity applications grew by a further 117%. This meant that despite the continued reduction of legacy activities (by 65% in 2017), overall company turnover increased to £13.0m – a 33% increase on 2016 (£9.8m). Affinity sales have a notably high gross profit margin due to the applications being built entirely on the company's own IP (thereby minimising third party royalties) as well as them being delivered to end-users electronically (with no physical cost of goods or shipping costs incurred).

## SERIF (EUROPE) LIMITED

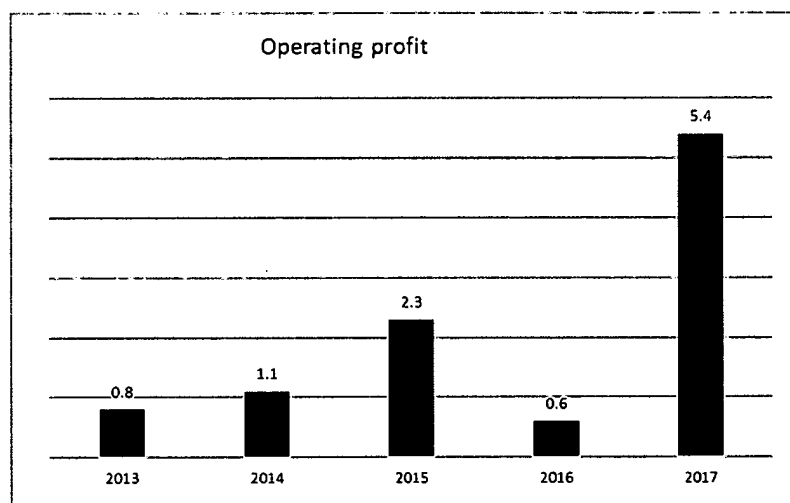
### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

As the blend of revenues has shifted to Affinity, this has resulted in the company's overall gross profit margin increasing in recent years, reaching 91% in 2017.



For 2017 gross profit was £11.9M, a 44% increase over 2016 (£8.3m).

Management has continued to focus on removing unnecessary costs and non-core activities from the business and this has resulted in operating profit increasing to £5.4m (2016: £0.6m).



Shareholder funds were £5.0m (2016: £0.9m) at the year-end having paid dividends of £5.3m (2016: £1.6m). Cash balances at the year-end were £3.0m (2016: £2.9m). The directors believe that it is the value of Serif's IP, product range and international user base that continues to deliver profitable results, along with its ability to respond to the needs of professional users. They continue to believe that the main drivers of the business will be constant product development, effective marketing and a growing international presence.

#### Principal risks and uncertainties

The size and complexity of images and designs that professional users create and edit means that hardware capabilities are frequently pushed to the limit, particularly on mobile devices, and the company's product range has to constantly innovate to incorporate industry-leading and often unique technology to deliver best of class performance. This relies on world-class developers and management in a market where competition is fierce, and skillsets are highly valued.

## **SERIF (EUROPE) LIMITED**

### **STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **Research and development**

The company continues to invest heavily in R&D - which increased to £2.9m in 2017 (2016: £2.4m). Research and development expenditure is written off in the period in which it is incurred. Capital expenditure in 2017 remained relatively low and amounted to £84k (2016: -£28k).

#### **Key developments in 2017**

The company unveiled its latest application - Affinity Photo for iPad - on 5 June 2017. This was considered so revolutionary that it was showcased on stage during Apple's WWDC keynote address, something reserved for the most innovative of products.

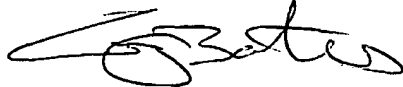
It was a significant milestone for the company, both in terms of the worldwide exposure that it gained, but also in delivering their vision to bring their suite of applications to mobile devices. Affinity Photo went on to win Apple's worldwide App of the Year 2017, beating hundreds of thousands of other competitors to the title.

Development of the desktop versions of Affinity Photo and Designer continued in earnest with a big update, containing many new features, launching in November. The company also made Affinity Photo and Designer available on the Windows Store for the first time, expanding their distribution channels to include the Mac App Store, iOS App Store, and Microsoft Store as well as directly through Serif's Affinity website.

#### **Future developments**

Development of the Affinity range will continue with the launch of Affinity Designer for iPad and further feature updates across the suite planned during 2018. The biggest focus though will be on the next all-new product in the suite: Affinity Publisher. This will enter a public beta period in the 2nd half of 2018 and is planned to be released in early 2019.

This report was approved by the board and signed on its behalf.



**G Bates**  
Director

Date: 21.09.18

## **SERIF (EUROPE) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their report and the financial statements for the year ended 31 December 2017.

#### **Directors' responsibilities statement**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Results and dividends**

The profit for the year, after taxation, amounted to £5,150,376 (2016: £723,871).

During the year the company paid dividends of £848,705 (2016: £1,586,372). Final dividends of £2,750,000 (2016: £Nil) have been proposed.

#### **Directors**

The directors who served during the year were:

G Bates  
J Bryce  
A Hewson

**SERIF (EUROPE) LIMITED**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**Disclosure of information to auditors**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board and signed on its behalf.



**G Bates**  
Director

Date: 21.09.18



## **SERIF (EUROPE) LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERIF (EUROPE) LIMITED**

#### **Opinion**

We have audited the financial statements of Serif (Europe) Limited (the 'company') for the year ended 31 December 2017, which comprise the profit and loss account, the balance sheet, the statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **SERIF (EUROPE) LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERIF (EUROPE) LIMITED (CONTINUED)**

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## SERIF (EUROPE) LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERIF (EUROPE) LIMITED (CONTINUED)

#### Auditor's responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' 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.



Richard Jones (Senior Statutory Auditor)

for and on behalf of

**PKF Cooper Parry Group Limited**

Chartered Accountants & Statutory Auditors  
Statutory Auditors

Sky View  
Argosy Road  
East Midlands Airport  
Castle Donington  
Derby  
DE74 2SA

Date: *21st September 2018*

# SERIF (EUROPE) LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Turnover	3	13,036,635	9,752,786
Cost of sales		(1,164,979)	(1,509,847)
<b>Gross profit</b>		<b>11,871,656</b>	<b>8,242,939</b>
Administrative expenses		(6,459,993)	(7,661,045)
<b>Operating profit</b>	4	<b>5,411,663</b>	<b>581,894</b>
Interest receivable and similar income		2,784	519
<b>Profit on ordinary activities before taxation</b>		<b>5,414,447</b>	<b>582,413</b>
Taxation on profit on ordinary activities	7	(264,071)	141,458
<b>Profit for the financial year</b>		<b>5,150,376</b>	<b>723,871</b>

There were no recognised gains and losses for 2017 or 2016 other than those included in the profit and loss account.

The notes on pages 12 to 27 form part of these financial statements.

**SERIF (EUROPE) LIMITED**  
**REGISTERED NUMBER: 02117968**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Tangible assets	10	164,367	140,453
Investments	11	81,089	81,089
		<u>245,456</u>	<u>221,542</u>
<b>Current assets</b>			
Stocks	12	152,832	77,379
Debtors	13	2,211,680	2,331,186
Cash at bank and in hand		2,951,637	2,811,190
		<u>5,316,149</u>	<u>5,219,755</u>
<b>Creditors: amounts falling due within one year</b>	14	(1,438,120)	(1,113,763)
<b>Net current assets</b>		<u>3,878,029</u>	<u>4,105,992</u>
<b>Total assets less current liabilities</b>		<u>4,123,485</u>	<u>4,327,534</u>
<b>Creditors: amounts falling due after more than one year</b>	15	(21,461)	(21,461)
<b>Provisions for liabilities</b>			
Dilapidation provision	17	(100,000)	(100,000)
<b>Net assets</b>		<u>4,002,024</u>	<u>4,206,073</u>
<b>Capital and reserves</b>			
Called up share capital	18	28,000	28,000
Share premium account	19	920	920
Profit and loss account	19	<u>3,973,104</u>	<u>4,177,153</u>
<b>Shareholders' funds</b>		<u>4,002,024</u>	<u>4,206,073</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



**G Bates**

Director

Date: 21.09.18

The notes on pages 11 to 26 form part of these financial statements.

**SERIF (EUROPE) LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	£	£	£	£
At 1 January 2017	28,000	920	4,177,153	4,206,073
Profit for the year	-	-	5,150,376	5,150,376
Dividends	-	-	(5,354,425)	(5,354,425)
<b>At 31 December 2017</b>	<b>28,000</b>	<b>920</b>	<b>3,973,104</b>	<b>4,002,024</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	£	£	£	£
At 1 January 2016	1,828,000	42,920	3,197,654	5,068,574
Profit for the year	-	-	723,871	723,871
Capital reduction	-	-	1,842,000	1,842,000
Dividends	-	-	(1,586,372)	(1,586,372)
Capital reduction	-	(42,000)	-	(42,000)
Capital reduction	(1,800,000)	-	-	(1,800,000)
<b>At 31 December 2016</b>	<b>28,000</b>	<b>920</b>	<b>4,177,153</b>	<b>4,206,073</b>

The notes on pages 12 to 27 form part of these financial statements.

## **SERIF (EUROPE) LIMITED**

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

#### **1. Accounting policies**

##### **1.1 Basis of preparation of financial statements**

Serif (Europe) Limited is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office is disclosed on the company information page.

The financial statements are prepared in Sterling (£) and are for a period of 52 weeks ended 31 December 2017 (2016: 52 weeks ended 31 December 2016).

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102), the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The company is itself a subsidiary company and it is exempt from the requirement to prepare group accounts by virtue of Section 400 of the Companies Act 2006. The financial statements therefore present information about the company as an individual undertaking and not about its group.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following accounting policies have been applied:

##### **1.2 Disclosure exemptions**

As permitted by FRS 102, section 1.12 the company has taken advantage of the disclosure exemptions available under the standard in relation to the presentation of a cash flow and the aggregate remuneration of key management personnel. Where required, equivalent disclosures are given in the group accounts of Serif Group Limited. The group accounts for Serif Group Limited are available to the public and can be obtained as set out in note 22.

## **SERIF (EUROPE) LIMITED**

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

#### **1. Accounting policies (continued)**

##### **1.3 Turnover**

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

##### **Sale of goods**

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

##### **Rendering of services**

Turnover to provide services is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured

##### **1.4 Intangible fixed assets**

The intangible asset relates to a customer database purchased at cost from the company's subsidiary, Serif Inc. The asset was amortised over its estimated useful economic life of three years.



## SERIF (EUROPE) LIMITED

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

#### 1. Accounting policies (continued)

##### 1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method. The estimated useful lives range as follows:

Depreciation is provided on the following basis:

Fixtures and fittings	- 15% straight line
Office equipment and computer hardware	- 10% - 50% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the profit and loss account.

At each balance sheet date, the company reviews the carrying amounts of its tangible fixed assets to determine whether there is any indication that any items have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of the asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

##### 1.6 Operating leases

Assets that are held by the company under leases which transfer substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

## **SERIF (EUROPE) LIMITED**

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

#### **1. Accounting policies (continued)**

##### **1.7 Investments**

###### **Subsidiary undertakings**

Investments in subsidiaries are initially valued at cost and reviewed annually for signs of impairment. If an impairment loss is identified this is recognised immediately in the profit and loss account and the value of the investment is reduced accordingly.

##### **1.8 Financial instruments**

The company enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from related parties.

All financial assets and liabilities are initially measured at transaction price and subsequently measured at amortised cost.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

The company also enters into derivatives including foreign exchange contracts which are not basic financial instruments. Derivatives are initially recognised at fair value on the date of the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss account.

##### **1.9 Stocks**

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stock are assessed for impairment. If stock is impaired, the carrying amount is reduced to its net realisable value. The impairment loss is recognised immediately in the profit and loss account.

##### **1.10 Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the monthly average exchange rates at the dates of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

##### **1.11 Dividends**

Equity dividends are recognised when they become legally payable.

## **SERIF (EUROPE) LIMITED**

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

#### **1. Accounting policies (continued)**

##### **1.12 Provisions for liabilities**

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the profit and loss account in the year that the company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

##### **1.13 Research and development**

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

##### **1.14 Pensions**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet.

##### **1.15 Taxation**

The tax charge for the year comprises of current and deferred tax.

Current or deferred tax is recognised in the profit and loss account, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current or deferred tax is also recognised in other comprehensive income or directly in equity respectively. The current income and deferred tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

## **SERIF (EUROPE) LIMITED**

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

#### **2. Judgements in applying accounting policies and key sources of estimation uncertainty**

The directors make estimates and assumptions concerning the future. They are also required to exercise judgement in the process of applying the company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### **Leases**

The directors determine whether leases entered into by the company as a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis based on an evaluation of the terms and conditions of the arrangements, and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

##### **Impairment of non-current assets**

The directors assess the impairment of tangible and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- Significant under-performance relative to historical or projected future operating results;
- Significant changes in the manner of the use of the acquired assets or the business strategy; and
- Significant negative industry or economic trends.

##### **Carrying value of stocks**

The directors review the market value of and demand for its stocks on a periodic basis to ensure stock is recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of stocks. The directors use their knowledge of market conditions, historical experiences and estimates of future events to assess future demand for the company's products and achievable selling prices.

##### **Recoverability of trade and other debtors**

Trade and other debtors are recognised to the extent that they are judged recoverable. The directors review is performed to estimate the level of reserves required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

The directors make allowances for doubtful debts based on an assessment of the recoverability of debtors. Allowances are applied to debtors where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyse historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the provision for doubtful debts. Where the expectation is different from the original estimate, such difference will impact the carrying value of debtors and the charge in the profit and loss account.

##### **Dilapidation provisions**

The directors recognises dilapidation provisions on the leasehold properties it occupies. The directors assess the level of provision required based on past experience. These provisions are reviewed annually to ensure that they reflect the current best estimate of the provision required.

## SERIF (EUROPE) LIMITED

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

#### 2. Judgments in applying accounting policies (continued)

##### Depreciation and residual values

The directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that asset lives and residual values are appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual values assessments consider issues such as future market conditions the remaining life of the asset and projected disposal values.

##### Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain. The company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

The director's estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

#### 3. Turnover

An analysis of turnover by class of business is as follows:

	2017 £	2016 £
Software sales	13,036,635	9,013,313
Hardware sales	-	739,473
	<u>13,036,635</u>	<u>9,752,786</u>

Analysis of turnover by country of destination:

	2017 £	2016 £
United Kingdom	1,895,313	2,777,879
Rest of Europe	3,754,414	1,672,362
Rest of the world	7,386,908	5,302,545
	<u>13,036,635</u>	<u>9,752,786</u>

**SERIF (EUROPE) LIMITED**

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

**4. Operating profit**

The operating profit is stated after charging/(crediting):

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Research and development expenditure	2,933,787	2,336,270
Depreciation of tangible fixed assets	60,005	58,385
Operating lease rentals	152,133	122,350
Foreign exchange differences	7,098	(104,647)
Auditor's remuneration	21,000	20,000
	<u>2,973,923</u>	<u>2,432,358</u>

**5. Staff costs**

Staff costs, including director's remuneration, were as follows:

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Wages and salaries	3,965,069	3,339,175
Social security costs	467,147	342,771
Other pension costs	152,263	680,597
	<u>4,584,479</u>	<u>4,362,543</u>

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

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
Office and management	64	78
Sales and operations	9	14
	<u>73</u>	<u>92</u>

**SERIF (EUROPE) LIMITED**

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

**6. Directors' remuneration**

	2017 £	2016 £
Directors' emoluments	372,941	331,946
Directors' pension costs	23,397	323,528
	<u>396,338</u>	<u>655,474</u>

During the year retirement benefits were accruing to 3 directors (2016: 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £258,697 (2016: £197,103).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10,836 (2016: £117,264).

**7. Taxation**

	2017 £	2016 £
<b>Corporation tax</b>		
Current tax on profits for the year	536	-
Adjustments in respect of previous periods	3,751	(11,250)
<b>Foreign tax</b>		
Foreign tax on income for the year	5,126	6,046
<b>Total current tax</b>	<u>9,413</u>	<u>(5,204)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	254,658	(165,360)
Changes to tax rates	-	29,106
<b>Total deferred tax</b>	<u>254,658</u>	<u>(136,254)</u>
<b>Taxation on profit/(loss) on ordinary activities</b>	<u>264,071</u>	<u>(141,458)</u>

# SERIF (EUROPE) LIMITED

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

### 7. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	5,414,447	582,413
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	1,042,281	116,483
<b>Effects of:</b>		
Expenses not deductible for tax purposes	17,711	392,655
Fixed asset timing differences	1,530	1,858
Income not taxable for tax purposes	-	(99,280)
Group relief surrendered	-	1,636
Adjustments to tax charge in respect of prior periods	3,751	(11,250)
Other permanent timing differences	(987)	(1,209)
Foreign tax credit	5,126	6,046
Additional deduction for research and development tax	(734,050)	(606,684)
Adjust opening/closing deferred tax to average rate of 19.25% (2016: 20%)	(38,047)	58,287
Deferred tax not recognised	(33,244)	-
<b>Total tax charge/(credit) for the year</b>	<b>264,071</b>	<b>(141,458)</b>

#### Factors that may affect future tax charges

There were no factors that may affect future tax charges.

### 8. Dividends

	2017 £	2016 £
Dividends paid	5,354,425	1,586,372
	<u>5,354,425</u>	<u>1,586,372</u>



**SERIF (EUROPE) LIMITED**

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

**9. Intangible assets**

	<b>Customer Database £</b>
<b>Cost</b>	
At 1 January 2017	407,421
At 31 December 2017	<u>407,421</u>
<b>Amortisation</b>	
At 1 January 2017	407,421
At 31 December 2017	<u>407,421</u>
<b>Net book value</b>	
At 31 December 2017	<u><u>-</u></u>
At 31 December 2016	<u><u>-</u></u>

**10. Tangible fixed assets**

	<b>Fixtures and fittings £</b>	<b>Office equipment and computer software £</b>	<b>Computer hardware £</b>	<b>Total £</b>
<b>Cost</b>				
At 1 January 2017	149,550	967,387	603,060	1,719,997
Additions	49,967	-	33,952	83,919
At 31 December 2017	<u>199,517</u>	<u>967,387</u>	<u>637,012</u>	<u>1,803,916</u>
<b>Depreciation</b>				
At 1 January 2017	149,550	863,445	566,549	1,579,544
Charge for the year	29,304	11,548	19,153	60,005
At 31 December 2017	<u>178,854</u>	<u>874,993</u>	<u>585,702</u>	<u>1,639,549</u>
<b>Net book value</b>				
At 31 December 2017	<u><u>20,663</u></u>	<u><u>92,394</u></u>	<u><u>51,310</u></u>	<u><u>164,367</u></u>
At 31 December 2016	<u><u>-</u></u>	<u><u>103,942</u></u>	<u><u>36,511</u></u>	<u><u>140,453</u></u>

# SERIF (EUROPE) LIMITED

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

### 11. Fixed asset investments

	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 1 January 2017	81,089
At 31 December 2017	81,089
<b>Net book value</b>	
At 31 December 2017	81,089
At 31 December 2016	81,089

### Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding	Principal activity
Serif Inc.	Ordinary	100 %	Providing royalty services

The company was incorporated in United States of America and its registered office is the same as Serif (Europe) Limited.

### 12. Stocks

	2017 £	2016 £
Finished goods	152,832	77,379

Stock recognised in cost of sales during the year as an expense was £216,496 (2016: £622,227).

An impairment loss of £1,104 (2016: £111,992) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

**SERIF (EUROPE) LIMITED**

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

**13. Debtors**

	2017 £	2016 £
Trade debtors	429,383	99,363
Amounts owed by group undertakings	99,180	493,808
Other debtors	1,047,736	888,063
Prepayments and accrued income	229,892	189,805
Deferred taxation	405,489	660,147
	<u>2,211,680</u>	<u>2,331,186</u>

An impairment loss of £Nil (2016: £24,000) was recognised in administrative expenses against trade debtors during the year.

An impairment loss of £Nil (2016: £5,590,845) was recognised in administrative expenses against amounts owed by group undertakings.

**14. Creditors: Amounts falling due within one year**

	2017 £	2016 £
Trade creditors	216,206	110,095
Corporation tax	23,607	14,194
Taxation and social security	127,296	276,636
Other creditors	47,679	258,490
Accruals and deferred income	1,023,332	454,348
	<u>1,438,120</u>	<u>1,113,763</u>

**15. Creditors: Amounts falling due after more than one year**

	2017 £	2016 £
Share capital treated as debt	21,461	21,461
	<u>21,461</u>	<u>21,461</u>

Disclosure of the terms and conditions attached to the non-equity shares is made in note 18.

**SERIF (EUROPE) LIMITED**

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

**16. Deferred taxation**

	<b>Deferred taxation £</b>
At 1 January 2017	660,147
Charged to the profit and loss account	(254,658)
<b>At 31 December 2017</b>	<b>405,489</b>

The deferred tax asset is made up as follows:

	<b>2017 £</b>	<b>2016 £</b>
Accelerated capital allowances	422	2,342
Tax losses carried forward	405,489	653,989
Other short term timing differences	(422)	3,816
	<b>405,489</b>	<b>660,147</b>

**17. Provisions**

	<b>Dilapidation provision £</b>
At 1 January 2017	100,000
<b>At 31 December 2017</b>	<b>100,000</b>

The provision relates to dilapidations on the leasehold property used by the company.

# SERIF (EUROPE) LIMITED

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

### 18. Share capital

	2017 £	2016 £
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
39,760 Ordinary shares of \$1 each	28,000	28,000
	<hr/>	<hr/>
	2017 £	2016 £
<b>Shares classified as debt</b>		
<b>Allotted, called up and fully paid</b>		
21,460 8p Preference shares of \$0.0001 each	1	1
21,460 Deferred 8% Preference shares of £1 each	21,460	21,460
	<hr/>	<hr/>
	21,461	21,461
	<hr/>	<hr/>

### Voting

Share of the company shall carry votes as follows:

Ordinary shares - one vote per share  
Deferred Preference shares - no right to vote  
Preference shares - one vote per share

### Return on capital

On a return of assets on liquidation or otherwise, the assets of the company remaining after the payment of its liabilities shall be applied in the following order of priority:

- First, in repaying the holders of the Preference shares the sum of £1 each, together with all arrears of dividends
- Second, shall be distributed to the holders of the Ordinary shares pro-rata according to the number of shares held by them.
- Thirdly, the Deferred Preference shares shall not entitle the holders to participate in the return of capital until every holder of ordinary shares has received £1 million in respect of each Ordinary shares they have, and then only to the extent of £1 per each Deferred share.

Further detailed of the terms and conditions attaching to all shares are detailed within the Articles of Association which are available from Companies House.

## SERIF (EUROPE) LIMITED

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

#### 19. Reserves

##### Share premium account

The share premium account represents the amounts received for shares in excess of their nominal value.

##### Profit and loss account

The profit and loss account represents accumulated profit and loss for the year ended and prior periods less dividends paid.

#### 20. Commitments under operating leases

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Not later than 1 year	140,000	144,000
Later than 1 year and not later than 5 years	466,667	560,000
Later than 5 years	-	46,667
<b>Total</b>	<b>606,667</b>	<b>750,667</b>

#### 21. Related party transactions

Advantage has been taken of the exemption provided by FRS 102 Section 33.1A not to disclose transactions with fellow group companies and disclosure on key management personnel as all subsidiary undertakings are wholly owned by the ultimate controlling entity of the group.

Included within other debtors are directors loans of £Nil (2016: £33,458). The maximum outstanding during the year was £33,458 (2016: £45,000). The amount advanced in the year was £Nil (2016: £45,000) with repayments of £33,458 (2016: £11,542).

During the year, the group incurred rental charges of £140,000 (2016: £58,333) for the use of the premises owned by a partnership where the directors are partners of the business. There were no amounts outstanding at the year end (2016: £Nil).

#### 22. Ultimate parent undertaking and controlling party

The company's immediate parent company and ultimate parent undertaking is Serif Group Limited, a company registered in England and Wales. Serif Group Limited heads the group in which these financial statements are consolidated.

The directors consider the ultimate controlling parties are G Bates and J Bryce, acting in consortium.