

SERIF (EUROPE) LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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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	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 2019****Introduction**

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

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, and now covers the core disciplines of photo editing, vector drawing and desktop publishing using exactly the same file format between applications, devices and across operating systems.

Business review

2019 was a remarkable year for the group, well outstripping the forecast for the year. The group achieved a 42% growth in turnover to £19.6m (2018: £13.8m) and 63% growth in operating profit (after amortisation of goodwill) to £10.6m (2018: £6.5m).

The main driver for growth was the launch of Affinity Publisher in June. This was an incredibly important moment for the business as it represented the completion of the initial suite of three creative applications - joining Affinity Designer and Affinity Photo - something the company had been working towards for over 10 years.

Within 7 months between June and the end of the year Affinity Publisher had recorded £4.6m of sales – all of which effectively new money into the business compared to prior years. But particularly pleasing was the underlying growth in sales of the other Affinity apps during the year. Any updates to those apps were free to existing users, so this sales growth was achieved purely from new customers and represents the continuing increase in adoption of Affinity apps.

Product (£)	2019	2018	Growth
Affinity Designer	5.79m	4.84m	+20%
Affinity Photo	7.55m	7.07m	+7%
Affinity Publisher	4.55m	0.00m	-
Affinity Books / add ons	1.68m	1.33m	+26%
Legacy Activity	0.06m	0.56m	(89%)
TOTAL	19.64m	13.80m	+42%

The company has invested heavily in the localisation of the Affinity apps over several years – in total now supporting 9 languages. More focus was given to this during 2019 through expanding other content such as localised tutorials and learning content, as well as more targeted marketing activities in non-English markets. This also proved to be a driver for growth, with large gains in Germany (+57%), the far east (in particular Japan +126%) and across Latin America (+65%).

Revenue by region

Region (£)	2019	2018	Growth
Europe	10.39m	7.37m	+41.1%
US & Canada	6.30m	4.77m	+32.0%
Rest of World	2.95m	1.66m	+77.2%
TOTAL	19.64m	13.80m	+42.3%

SERIF (EUROPE) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Industry awards

The apps continue to receive an incredible amount of praise and awards from the press. The biggest achievement in the year though was Affinity Publisher being crowned **Worldwide Mac App of the Year** by Apple. Awards from Apple are the most highly regarded awards in the industry, and Serif are now the most decorated developer from Apple awards in the world. This is a huge achievement for the company, considering it is competing with hundreds of thousands of apps available on the App Store.

Their Apple awards now include:

Best of 2014 – Affinity Designer
Apple Design Award 2015 – Affinity Designer
Mac App of the Year 2015 – Affinity Photo
iPad App of the Year 2017 – Affinity Photo
Mac App of the Year 2019 – Affinity Publisher

Other major press awards won during 2019 include:

Practical Photography – **Best software** – Affinity Photo
Professional Photo – **Best editing software** – Affinity Photo
Amateur Photographer – **Software of the Year** – Affinity Photo
Photography News – **Best Editor** – Affinity Photo
PC Pro Tech Excellence Awards – **Software of the Year** – Affinity Publisher
Microsoft 365 app awards – **Best User Experience** (Runner-up) – Affinity Publisher

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.

Financial key performance indicators

The directors feel that the key performance indicators are those which communicate the financial performance and strength of the company as a whole, these being turnover, gross margin and operating profit.

SERIF (EUROPE) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

Key developments

Affinity Publisher for macOS and Windows was the big launch in the year in June, and this coincided with a major update to both Affinity Designer and Affinity Photo (to version 1.7) at the same time. The main reason for this is that Affinity Publisher includes the ability to utilise the tools and features of both Affinity Designer and Affinity Photo from within same app. The technology – called StudioLink – is totally revolutionary and is something which has never been done before in a creative suite of apps.

General outlook

There is no major new product launch planned in 2020, which will make matching the previous year's exceptional performance a challenge. However, the directors believe the underlying growth seen across territories and the continued increases in new customer adoption should produce a solid level of sales even without new product launches.

COVID-19

Serif began 2020 aware of some of the background concerns about the potential impact of a new infectious coronavirus then emerging in Asia. Given the nature of Serif's products and considering that 95% of Serif's revenue is generated from download sales from App Stores and direct from their website, there was no expectation of any material supply chain or store front issues. However the impact that any global spread of the virus could have on employees, the overall market, and demand for creative apps was somewhat unknown, although the directors remained confident that the business would remain flexible and resilient.

As at the date of approval of these financial statements we have lived through the first wave of coronavirus in Europe. The directors took steps to safeguard the health and wellbeing of employees through use of remote working / implementing Covid Secure workplace guidelines etc. Sales have remained strong through online platforms. Serif has continued to trade profitably and generate significant operating cashflows. The group has a significant cash holding and no debt. As such the directors consider that the group is well placed to manage a potentially extended economic downturn from a second wave as a result of the recent rise in confirmed cases across Europe.

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

DocuSigned by:

775E115B48C5420...
G Bates
Director

Date: 25 September 2020

SERIF (EUROPE) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

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 for the company's financial statements 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.

Coronavirus

At the date of signing these financial statements, the directors have considered the effect on the company with the information available to it, and do not believe it will affect the company's ability to continue to trade for the foreseeable future. As with most businesses there will be short term practical difficulties which we have addressed and are managing. However, there are also positive signs from our clients to continue to operate normally, together with winning new potential commercial opportunities where we are well placed. See note 1.2 for further details.

Results and dividends

The profit for the year, after taxation, amounted to £9,492,565 (2018: £6,202,298).

During the year the company paid dividends of £9,750,692 (2018: £7,284,832).

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 2019**

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.

DocuSigned by:
Gary Bates
775E115B48C5420...
G Bates
Director

Date: 25 September 2020

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 2019, 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).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 auditor's 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 the 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)

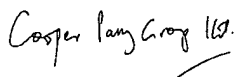
Auditor's responsibilities for the audit of the financial statements

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 auditor's 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. This description forms part of our auditor's 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 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.



Neil Calder (Senior statutory auditor)

for and on behalf of

Cooper Parry Group Limited

Chartered Accountants & Statutory Auditors
Statutory Auditors

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

Date: 25 September 2020

SERIF (EUROPE) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £	2018 £
Turnover	3	19,641,099	13,801,232
Cost of sales		(1,421,266)	(1,095,198)
Gross profit		18,219,833	12,706,034
Administrative expenses		(7,454,588)	(6,015,467)
Operating profit	4	10,765,245	6,690,567
Interest receivable and similar income		1,551	1,622
Profit on ordinary activities before taxation		10,766,796	6,692,189
Taxation on profit on ordinary activities	7	(1,274,231)	(489,891)
Profit for the financial year		9,492,565	6,202,298

There were no recognised gains and losses for 2019 or 2018 other than those included in the profit and loss account.

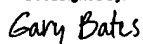
The notes on pages 12 to 26 form part of these financial statements.

SERIF (EUROPE) LIMITED
REGISTERED NUMBER: 02117968

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Tangible assets	9	1,027,157	710,756
Investments	10	81,089	81,089
		<u>1,108,246</u>	<u>791,845</u>
Current assets			
Stocks	11	68,334	119,581
Debtors: amounts falling due within one year	12	2,822,938	1,749,560
Bank and cash balances		1,746,047	1,717,812
		<u>4,637,319</u>	<u>3,586,953</u>
Creditors: amounts falling due within one year	13	<u>(2,762,741)</u>	<u>(1,334,736)</u>
Net current assets		<u>1,874,578</u>	<u>2,252,217</u>
Total assets less current liabilities		<u>2,982,824</u>	<u>3,044,062</u>
Creditors: amounts falling due after more than one year	14	(21,461)	(21,461)
Provisions for liabilities			
Deferred tax	15	-	(3,111)
Dilapidation provision	16	(300,000)	(100,000)
Net assets		<u><u>2,661,363</u></u>	<u><u>2,919,490</u></u>
Capital and reserves			
Called up share capital	17	28,000	28,000
Share premium account	18	920	920
Profit and loss account	18	2,632,443	2,890,570
Shareholders' funds		<u><u>2,661,363</u></u>	<u><u>2,919,490</u></u>

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

DocuSigned by:

775E115B48C5420...
G Bates

Director

Date: 25 September 2020

The notes on pages 12 to 26 form part of these financial statements.

SERIF (EUROPE) LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2019	28,000	920	2,890,570	2,919,490
Profit for the year	-	-	9,492,565	9,492,565
Dividends	-	-	(9,750,692)	(9,750,692)
At 31 December 2019	28,000	920	2,632,443	2,661,363

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2018	28,000	920	3,973,104	4,002,024
Profit for the year	-	-	6,202,298	6,202,298
Dividends	-	-	(7,284,832)	(7,284,832)
At 31 December 2018	28,000	920	2,890,570	2,919,490

The notes on pages 12 to 26 form part of these financial statements.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 (2018: 52 weeks ended 31 December 2018).

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 Coronavirus and going concern

At the balance sheet date the company had a significant cash balance and strong net current asset position. At the time of signing these accounts, the directors have considered the effect of the Coronavirus on the going concern position, and consider that this does indicate that the company will continue to trade for a period of at least 12 months from the date of signing these accounts due to the continued strong trading, profitability and cash generated during the UK lockdown.

The financial forecasts prepared by the directors show that the company will be able to operate within the facilities available to it.

On that basis, the directors have prepared these financial statements on a going concern basis.

1.3 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 21.

SERIF (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

1.4 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

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.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.5 Tangible fixed assets (continued)

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.

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.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.11 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.

1.12 Dividends

Equity dividends are recognised when they become legally payable.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.13 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.

1.14 Research and development

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

1.15 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.

1.16 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 2019**

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.

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 recognise dilapidation provisions on the leasehold properties the company 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.

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.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**3. Turnover**

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

	2019 £	2018 £
Software sales	19,641,099	13,801,232
	<u>19,641,099</u>	<u>13,801,232</u>

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	2,035,345	1,757,485
Rest of Europe	8,357,442	5,607,749
North America	6,300,797	4,772,602
Rest of the world	2,947,515	1,663,396
	<u>19,641,099</u>	<u>13,801,232</u>

4. Operating profit

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

	2019 £	2018 £
Research and development expenditure	2,206,052	2,941,402
Depreciation of tangible fixed assets	225,144	118,458
Operating lease rentals	164,500	162,051
Foreign exchange differences	278,232	7,240
Auditor's remuneration	23,950	22,000
	<u>2,897,878</u>	<u>3,251,151</u>

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**5. Staff costs**

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

	2019 £	2018 £
Wages and salaries	4,176,880	3,627,243
Social security costs	461,383	304,718
Other pension costs	249,181	187,544
	<u>4,887,444</u>	<u>4,119,505</u>

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

	2019 No.	2018 No.
Office and management	70	68
Sales and operations	4	4
	<u>74</u>	<u>72</u>

6. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	405,399	385,566
Directors' pension costs	23,034	22,837
	<u>428,433</u>	<u>408,403</u>

During the year retirement benefits were accruing to 3 directors (2018: 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £207,301 (2018: £195,305).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10,000 (2018: £10,000).

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

7. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	1,371,221	86,741
Adjustments in respect of previous periods	(74,269)	(5,450)
Total current tax	<u>1,296,952</u>	<u>81,291</u>
Deferred tax		
Origination and reversal of timing differences	(22,721)	408,600
Total deferred tax	<u>(22,721)</u>	<u>408,600</u>
Taxation on profit on ordinary activities	<u>1,274,231</u>	<u>489,891</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	<u>10,766,796</u>	<u>6,692,189</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	2,045,691	1,271,516
Effects of:		
Expenses not deductible for tax purposes	885	25,343
Fixed asset timing differences	(375)	11,436
Adjustments to tax charge in respect of prior periods	(74,269)	(5,450)
Adjustments to tax charge in respect of previous periods - deferred tax	54,920	-
Additional deduction for research and development tax	(761,756)	(742,124)
Adjust opening/closing deferred tax to average rate of 19% (2018: 19%)	6,828	(50,100)
Adjust opening deferred tax to average rate of 19%	2,307	(366)
Deferred tax not recognised	-	(20,364)
Total tax charge/(credit) for the year	<u>1,274,231</u>	<u>489,891</u>

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

8. Dividends

	2019 £	2018 £
Dividends paid	9,750,692	7,284,832

9. Tangible fixed assets

	Fixtures and fittings £	Office equipment and computer software £	Computer hardware £	Total £
Cost				
At 1 January 2019	656,649	967,387	844,727	2,468,763
Additions	455,342	3,395	82,808	541,545
At 31 December 2019	1,111,991	970,782	927,535	3,010,308
Depreciation				
At 1 January 2019	240,576	886,182	631,249	1,758,007
Charge for the year	142,783	11,350	71,011	225,144
At 31 December 2019	383,359	897,532	702,260	1,983,151
Net book value				
At 31 December 2019	728,632	73,250	225,275	1,027,157
At 31 December 2018	416,073	81,205	213,478	710,756

SERIF (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2019	81,089
At 31 December 2019	81,089
Net book value	
At 31 December 2019	81,089
At 31 December 2018	81,089

Subsidiary undertaking

The following was a subsidiary undertaking 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.

11. Stocks

	2019 £	2018 £
Finished goods	68,334	119,581

Stock recognised in cost of sales during the year as an expense was £258,944 (2018: £223,546).

An impairment loss of £26,963 (2018: £5,266) 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 2019**12. Debtors**

	2019 £	2018 £
Trade debtors	893,709	659,461
Amounts owed by group undertakings	86,556	81,667
Other debtors	1,421,228	723,361
Prepayments and accrued income	401,835	285,071
Deferred taxation	19,610	-
	<u>2,822,938</u>	<u>1,749,560</u>

13. Creditors: Amounts falling due within one year

	2019 £	2018 £
Trade creditors	212,235	178,514
Corporation tax	884,159	237,682
Taxation and social security	286,041	146,005
Other creditors	278,232	-
Accruals and deferred income	1,102,074	772,535
	<u>2,762,741</u>	<u>1,334,736</u>

14. Creditors: Amounts falling due after more than one year

	2019 £	2018 £
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 17.

15. Deferred taxation

	Deferred taxation £
At 1 January 2019	(3,111)
Charged to the profit and loss account	22,721
At 31 December 2019	<u><u>19,610</u></u>

SERIF (EUROPE) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

15. Deferred taxation (continued)

The deferred taxation balance is made up as follows:

	2019	2018
	£	£
Fixed asset timing differences	(115,054)	(17,994)
Short term timing differences	134,664	14,883
	<u>19,610</u>	<u>(3,111)</u>

16. Provisions

	Dilapidation provision £
At 1 January 2019	100,000
Charged to profit or loss	200,000
At 31 December 2019	<u><u>300,000</u></u>

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 2019

17. Share capital

	2019 £	2018 £
Shares classified as equity		
Allotted, called up and fully paid		
39,760 Ordinary shares of \$1 each	28,000	28,000
	<hr/>	<hr/>
	2019 £	2018 £
Shares classified as debt		
Allotted, called up and fully paid		
21,460 8% 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 details 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 2019**18. 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.

19. Commitments under operating leases

At 31 December 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	164,000	164,000
Later than 1 year and not later than 5 years	656,000	656,000
Later than 5 years	382,667	546,667
Total	1,202,667	1,366,667

20. 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.

During the year, the group incurred rental charges of £152,000 (2018: £148,000) 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 (2018: £Nil).

21. Post balance sheet events

Subsequent to the year end, there has been an outbreak of Coronavirus which has developed into a global pandemic. The directors have taken appropriate steps to safeguard the well being of employees through the extensive use of home working. The company has traded successfully through the lockdown period with revenue continuing to grow and continued generation of strong profits. As a result, they believe the company is strongly positioned to handle any downturn that may occur in the sector the company operates in.

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.