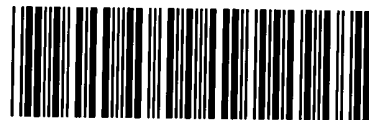


# **VNC Group Limited**

## **Report and Financial Statements**

31 December 2016

WEDNESDAY



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27/09/2017

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COMPANIES HOUSE

**Directors**

A C Harter  
A Hopper  
T J Richardson

**Secretary**

T McGuire

**Auditor**

Ernst & Young LLP  
One Cambridge Business Park  
Cowley Road  
Cambridge CB4 0WZ

**Bankers**

Barclays Plc  
28 Chesterton Road  
Cambridge CB4 3AZ

**Solicitors**

Taylor Vinters  
Merlin Place  
Milton Road  
Cambridge CB4 0DP

**Registered Office**

Betjeman House  
104 Hills Road  
Cambridge CB2 1LQ

## Strategic report

The directors present their strategic report for the year ended 31 December 2016.

### Principal activities and review of the business

The group's principal activities during the year continued to be development, licensing, support and sales of remote access software for desktop and mobile platforms.

The group's key financial and other performance indicators over the past two years were as follows:

	2016	2015
	£000	£000
Turnover	8,508	8,351
Profit on ordinary activities before taxation	79	335
Profit for the financial year	57	410
Shareholders' funds	7,941	7,883
Cash reserves	4,471	4,658

2016 was a busy year for RealVNC as we successfully transitioned our core business from a product business selling perpetual software licenses, to a service business providing software subscriptions – the immediate focus is making the transition process as smooth as possible for existing customers whilst continuing to attract new customers. We anticipate that the move to SaaS will bolster repeat revenue and strengthen the growth trajectory by allowing us to address a larger potential market.

The Salesforce platform is a key internal system and one we continue to make work harder and smarter for us as we strive to deliver revenue growth. An increasing emphasis is being placed on making data-driven business decisions and our investment in Internal Systems is supporting this metric-centric approach. A new addition in 2016 is Hubspot, a marketing automation tool, which will complement Salesforce and be used to focus our top-of-funnel activities, providing Sales with the information they need to improve conversion rates and help close customers. These activities and more continue to be self-funded, which is reflected in our 2016 profitability.

Revenue shows some growth on 2015, which is particularly pleasing considering that we started the transition to a SaaS revenue model before the end of 2016, absorbing a lot of organisational change on the commercial side. We have already started booking recurring revenue for 2017 and beyond. We do anticipate that the move to SaaS will create some challenges for us, most notably the differences in revenue recognition criteria and these challenges will likely impact our first full year of trading as a SaaS company (2017).

We do believe that 2017 is an exciting year for our OEM offerings including our most successful vertical, Automotive. We have built a strong pipeline of opportunities across other targeted vertical markets, some new this year, and the ongoing challenge for the team is to close these deals. We recognise in our internal forecasts that OEM deals have a longer lifecycle and believe we are on track.

RealVNC continues to enjoy strong cash reserves and continues to deliver high-quality software solutions at a compelling price point, together with further developing the OEM licensing business, strategic partnerships and collaborations.

## Strategic report (continued)

### Principal risks and uncertainties

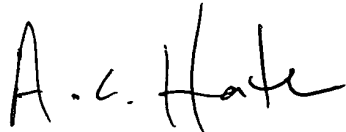
Exposure to price, credit and liquidity risk.

The group's cost is predominately people related given the nature of the business. Therefore price risk revolves around general salary inflation and the availability of suitably qualified staff. The company's revenue is generated internationally, which exposes the company to general global economic uncertainties and exchange rate fluctuations.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses through strong credit control, and require that credit is only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the group's debtors are shown in Note 12 to the financial statements.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operations and maintaining a significant level of cash reserves.

On behalf of the Board



Dr A C Harter

Director

21 September 2017

## Directors' report

Registered No. 05822974

The directors present their report for the year ended 31 December 2016.

### Results and dividends

The profit for the year after taxation amounted to £57,314 (2015 – £409,998). No interim dividend was paid out in 2016. (2015 – £8,827,470). No final dividend is proposed (2015 – £nil).

### Future developments

In line with our desire to widen our vision from screen sharing to one of broader connectivity, we have focussed market research activities on identifying potential synergies in emerging connectivity markets e.g. IoT, and new device categories e.g. augmented and virtual reality. 2017 will see us expand upon this research and make our first move beyond traditional screen sharing in our standard OEM offering.

Royalties from our Automotive business continue to grow as cars roll off the production lines with our embedded VNC software on-board. Production is regularly delivering over 1m units per quarter and our software is in over 11m vehicles at the end of 2016. We continue to add new customers to our portfolio and find existing customers returning with new projects, driving an expectation of continued royalty revenue growth. Additionally, we continue to explore complementary revenue opportunities in the telematics and broader connected car space, having successfully demonstrated our offering at Mobile World Congress in collaboration with Frazer-Nash and their Ecotive Metrocab.

Opportunities for our broader OEM team are expanding as we focus keenly on other key target verticals, which our market research has shown to fulfil our criteria for growth & penetration potential. We continue to build skill and resource into the business development team and our pipeline is strong going into 2017 following some notable success with new demos and proof-of-concepts capturing hearts and minds at influential trade shows.

### Research and developments

The company continued to significantly reinvest profits into internal R&D for specific new strategic product areas and capabilities, including in-place OS upgrades and non-VNC data streaming using existing cloud assets, as well as innovating in security and audio & video compression. This is expected to continue on an ongoing basis as the company broadens its products and applications.

### Going concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to price, credit and liquidity risks are described in the Strategic Report on pages 2 to 3.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Directors

The directors who served the company during the year were as follows:

A C Harter  
A Hopper  
T J Richardson

## Directors' report (continued)

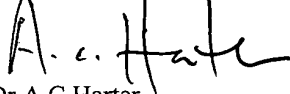
### Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Dr A C Harter

Director

21 September 2017

## Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the United Kingdom 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditor's report**

**to the members of VNC Group Limited**

We have audited the report and financial statements of VNC Group Limited for the year ended 31 December 2016 which comprise the Group Statement of Comprehensive Income, Group and Company Balance Sheets, Group and Company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent undertaking's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter 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 those financial statements and such reports have been prepared in accordance with applicable legal requirements.



## **Independent auditor's report (continued)**

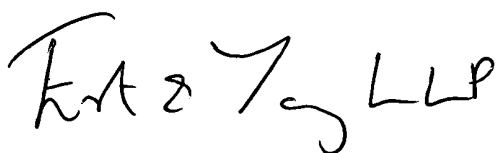
to the members of VNC Group Limited

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

In the light of our 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 and the Directors' Report.

We have nothing to report in respect of the following matters where 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.

A handwritten signature in black ink, appearing to read 'Fraser Bull', written in a cursive style.

Fraser Bull (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Cambridge  
21 September 2017

# Group Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £	2015 £
Turnover	2	8,507,780	8,351,221
Cost of sales		<u>(48,254)</u>	<u>(47,768)</u>
<b>Gross profit</b>		8,459,526	8,303,453
Administrative expenses		<u>(8,435,911)</u>	<u>(7,995,169)</u>
<b>Operating profit</b>		23,615	308,284
Interest receivable and similar income	3	<u>55,290</u>	<u>26,509</u>
<b>Profit on ordinary activities before taxation</b>	4	78,905	334,793
Tax	7	<u>(21,591)</u>	<u>75,205</u>
<b>Profit for the financial year</b>		57,314	409,998
Other comprehensive income		-	-
<b>Total comprehensive income for the financial year</b>		<u>57,314</u>	<u>409,998</u>

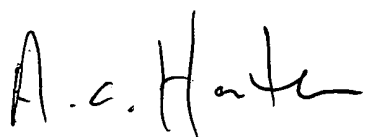
All the above relate to continuing activities

## Group balance sheet

at 31 December 2016

	Notes	2016 £	2015 £
<b>Fixed assets</b>			
Intangible assets	9	894,569	17,465
Tangible fixed assets	10	134,079	158,961
Investments	11	-	25,000
		<u>1,028,648</u>	<u>201,426</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	12	3,461,582	3,425,930
Debtors: amounts falling due after more than one year	12	1,000,000	1,000,000
Cash at bank and in hand	13	<u>4,471,397</u>	<u>4,657,704</u>
		8,932,979	9,083,634
<b>Creditors: amounts falling due within one year</b>	14	<u>(1,854,532)</u>	<u>(1,288,371)</u>
<b>Net current assets</b>		<u>7,078,447</u>	<u>7,795,263</u>
<b>Total assets less current liabilities</b>		8,107,095	7,996,689
<b>Creditors: amounts falling due after more than one year</b>	15	<u>(166,549)</u>	<u>(113,457)</u>
<b>Net assets</b>		<u>7,940,546</u>	<u>7,883,232</u>
<b>Capital and reserves</b>			
Called up share capital	17	5,885	5,885
Share premium	18	58,620	58,620
Profit and loss account	18	<u>7,876,041</u>	<u>7,818,727</u>
<b>Shareholders' funds</b>		<u>7,940,546</u>	<u>7,883,232</u>

The report and financial statements were approved by the board directors and authorised for issue on 21 September 2017 and are signed on its behalf by:



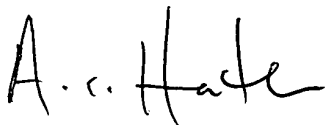
Dr A C Harter  
Director

## Company balance sheet

at 31 December 2016

	Notes	2016 £	2015 £
<b>Fixed assets</b>			
Investments	11	5,334	5,334
<b>Current assets</b>			
Debtors: amounts falling due within one year	12	56,521	59,171
<b>Net assets</b>		<u>61,855</u>	<u>64,505</u>
<b>Capital and reserves</b>			
Called up share capital	17	5,885	5,885
Share premium	18	58,620	58,620
Profit and loss account	18	(2,650)	-
<b>Shareholders' funds</b>		<u>61,855</u>	<u>64,505</u>

The report and financial statements were approved by the directors and authorised for issue on 21 September 2017 and are signed on their behalf by:



Dr A C Harter  
Director

## Group and company statement of changes in equity

at 31 December 2016

Group	Called up share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
<b>At 1 January 2015</b>	5,470	4,544	16,236,199	16,246,213
Total comprehensive income for the period:				
Profit for the financial year	—	—	409,998	409,998
Share issue	415	54,076	—	54,491
Dividends paid	—	—	(8,827,470)	(8,827,470)
<b>At 31 December 2015</b>	<b>5,885</b>	<b>58,620</b>	<b>7,818,727</b>	<b>7,883,232</b>
Total comprehensive income for the period:				
Profit for the financial year	—	—	57,314	57,314
<b>At 31 December 2016</b>	<b>5,885</b>	<b>58,620</b>	<b>7,876,041</b>	<b>7,940,546</b>

Company	Called up share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
<b>At 1 January 2015</b>	5,470	4,544	—	10,014
Total comprehensive income for the period:				
Profit for the financial year	—	—	8,827,470	8,827,470
Share issue	415	54,076	—	54,491
Dividends paid	—	—	(8,827,470)	(8,827,470)
<b>At 31 December 2015</b>	<b>5,885</b>	<b>58,620</b>	<b>—</b>	<b>64,505</b>
Total comprehensive income for the period:				
Loss for the financial year	—	—	(2,650)	(2,650)
<b>At 31 December 2016</b>	<b>5,885</b>	<b>58,620</b>	<b>(2,650)</b>	<b>61,855</b>

## Group statement of cash flows

for the year ended 31 December 2016

	Note	2016 £	2015 £
<i>Cash flow from operating activities</i>			
Profit on ordinary activities before taxation		78,905	334,792
Adjustments for:			
Finance income	3	(55,290)	(26,509)
Depreciation of tangible fixed assets	10	123,547	141,016
Amortisation of intangible fixed assets	9	15,515	2,501
Impairment of investments		-	132,693
Impairment of financial assets		-	100,000
Impairment of intangible assets	9	853,486	-
Increase in trade and other receivables		(98,489)	(501,122)
Decrease in trade and other payables		619,249	14,693
Cash from operations		1,536,923	198,064
Taxation paid		(21,591)	75,205
<i>Net cash generated from operating activities</i>		1,515,332	273,269
<i>Cash flows from investing activities</i>			
Purchase of tangible fixed assets	10	(121,261)	(31,085)
Purchase of intangible fixed assets	9	(1,660,668)	(11,726)
Disposal of financial asset	11	25,000	
Interest receivable and similar income	3	55,290	26,509
<i>Net cash used in investing activities</i>		(1,701,639)	(16,302)
<i>Cash flows from financing activities</i>			
Issue of ordinary share capital		-	54,491
Dividends paid		-	(8,827,470)
<i>Net cash used in financing activities</i>		-	(8,772,979)
<i>Net decrease in cash and cash equivalents</i>		(186,307)	(8,516,012)
<i>Opening cash and cash equivalents</i>	13	4,657,704	13,173,716
<i>Closing cash and cash equivalents</i>	13	4,471,397	4,657,704

## Notes to the financial statements

at 31 December 2016

### 1. Corporate information and Accounting policies

#### *Company information*

VNC Group Limited is a private limited company and is incorporated and domiciled in England and Wales. The registered office is shown on page 1. The operations and activities of the group and company are described in the strategic report on pages 2 to 3.

#### *Basis of preparation and change in accounting policy*

These financial statements have been prepared in accordance with accounting standards, including FRS 102 'The Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland', and with the Companies Act 2006.

The financial statements are presented in Sterling (£), which is the functional currency of the group and the company.

The individual accounts of VNC Group Limited have also adopted the following disclosure exemptions:

- no profit and loss account is presented for VNC Group Limited as permitted by section 408 of the companies act.
- the requirement to present a Statement of Cash Flows and related notes
- financial instrument disclosures, including:
  - categories of financial instruments,
  - items of income, expense, gains or losses relating to financial instruments, and
  - exposure to and management of financial risk

#### *Basis of consolidation*

The group accounts consolidate the accounts of VNC Group Limited and all of its subsidiary undertakings drawn up to 31 December each year. Undertakings, other than subsidiary undertakings, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence, are treated as associates.

#### *Judgements and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) has had the most significant effect on amounts recognised in the financial statements.

#### *Impairment of non-financial assets*

The group had investments. The directors made judgements about the recoverability of loans and the potential impairment of investments and made provisions if necessary. During the prior year the group has taken an impairment against the investment due to uncertainty over recoverability of the balance.

The group has capitalised costs in developing and producing Video Based Training DVD's in such fields as remote management for the purpose of a specific contract and open marketing more widely. The directors have made judgements in determining the recoverability of the capitalised cost. During the current year the company has taken an impairment against the capitalised cost due to the uncertainty over recoverability of the balance, which is the equivalent of amortising over 2 years.

#### *Intangible fixed assets*

Intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using their straight-line method.

## Notes to the financial statements

at 31 December 2016

### *Intangible fixed assets (continued)*

The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The intangible assets are amortised over the following useful economic lives:

- |                                       |         |
|---------------------------------------|---------|
| - Web site domain                     | 5 years |
| - Software                            | 4 years |
| - Education Product Development Costs | 2 years |

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

### *Tangible fixed assets*

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Such costs include those directly attributable to making the asset capable of operating as intended.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives, using the straight-line method. The rates applicable are:

- |                                 |   |              |
|---------------------------------|---|--------------|
| - Plant and machinery           | — | 3 to 5 years |
| - Office and computer equipment | — | 4 years      |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### *Investments*

The company accounts for investment in subsidiaries at cost less accumulated impairment losses. The group accounted for other investments at cost less accumulated impairment losses.

### *Impairment of assets*

The group assesses at each reporting date whether an asset may be impaired. If any such indication exists the group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the group estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

### *Debtors*

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction cost, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

### *Cash and cash equivalents*

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with short term maturity dates. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### *Creditors*

Short term trade creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.



## Notes to the financial statements

at 31 December 2016

### *Taxation*

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax asset is reversed.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

### *Turnover*

Turnover is recognised in line with the group's ongoing obligations under the licence contracts. Certain licences require a high degree of modification and customisation provided through the maintenance and support services to enable appropriate usage by the customer. Where this arises revenue from both the initial licence fees as well as the maintenance and support fees are initially reported as deferred income and is transferred to the profit and loss over the period over which the group is obligated to provide maintenance and support services.

Turnover is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Interest income is recognised as interest accrues using the effective interest method.

### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the group. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the group recognises annual rent expense equal to amounts owed to the lessor.

### *Research and development*

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

## Notes to the financial statements

at 31 December 2016

### *Employee benefits*

Short-term employee benefits and contribution plans are recognised as an expense in the period in which they are incurred.

### *Pensions*

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to the profit and loss account in the period to which they relate.

### *Foreign currencies translation*

#### *Functional currency and presentation currency*

The financial statements of the group and company are presented in the currency of the primary economic environment in which the group operates (its functional currency namely Sterling).

#### *Transactions and balances*

In preparing the financial statements of the group, transactions in currencies other than the functional currency of the group (foreign currencies) are recognised at the spot rate at the dates of the transactions, or at an average rate where this rate approximates the actual rate at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences are recognised in profit or loss in the period in which they arise.

## Notes to the financial statements

at 31 December 2016

### 2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity.

Turnover, analysed geographically between markets, was as follows:

	2016 £	2015 £
UK	1,266,897	397,610
Non UK sales	7,240,883	7,953,611
	<u>8,507,780</u>	<u>8,351,221</u>

Turnover, analysed by category, was as follows:

	2016 £	2015 £
License fees	3,548,204	3,527,492
Support and maintenance fees	1,843,814	1,730,235
Royalty fees	2,824,446	2,943,372
Service fees	291,316	150,122
	<u>8,507,780</u>	<u>8,351,221</u>

### 3. Interest receivable and similar income

	2016 £	2015 £
Interest receivable on monies placed on deposit	<u>55,290</u>	<u>26,509</u>

## Notes to the financial statements

at 31 December 2016

### 4. Profit on ordinary activities before tax

The profit on ordinary activities before taxation is stated after:

		2016	2015
		£	£
Auditor's remuneration	—		
	—		
	—		
Amortisation of intangible fixed assets		23,500	11,500
Depreciation of tangible fixed assets		8,750	6,000
Impairment of loans		-	7,000
Impairment of investments		-	132,693
Impairment of intangible fixed assets		853,486	-
Research and development expenditure		3,596,622	3,512,257
Operating lease rentals	—	219,238	219,238
Foreign exchange differences		(599,747)	(67,860)

### 5. Directors and employees

Remuneration in respect of directors was as follows:

	2016	2015
	£	£
Emoluments	299,830	291,456
Company contributions paid to defined contribution pension schemes	9,450	13,800
	<u>309,280</u>	<u>305,256</u>
	No.	No.
Members of defined contribution pension schemes	<u>3</u>	<u>3</u>

The aggregate remuneration of the highest paid director was £187,850 (2015 - £183,975) and group pension contributions of £4,350 (2015 - £8,700) were made to a money purchase scheme on his behalf. None of the directors received or exercised share options for qualifying services in the current or prior year.

## Notes to the financial statements

at 31 December 2016

### 5. Directors and employees (continued)

Staff costs during the year were as follows:

	2016	2015
	£	£
Wages and salaries	4,700,028	4,374,596
Social security costs	546,584	487,630
Other pension costs	257,458	289,732
	<u>5,504,070</u>	<u>5,151,958</u>

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

	No.	No.
Research and development	74	72
Administrative	24	25
	<u>98</u>	<u>97</u>

### 6. Pensions

During the year under review the group operated a small self-administered pension scheme in respect of the staff and directors. The assets of the scheme are held and managed by an independent pension fund. The pension cost represents contributions payable by the group and amounted to £257,248 (2015 – £289,732). Contributions totalling £nil (2015 – £nil) were payable to the fund at the end of the year.

	2016	2015
	No.	No.
Members of defined contribution pension schemes	<u>86</u>	<u>87</u>

## Notes to the financial statements

at 31 December 2016

### 7. Tax

#### a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016	2015
	£	£
<i>Current tax:</i>		
Adjustments in respect of prior periods	–	–
Foreign tax suffered/(recovered)	21,590	(75,205)
<b>Total current tax</b>	<b>21,590</b>	<b>(75,205)</b>
<i>Deferred tax:</i>		
Adjustments in respect of prior periods	1	–
<b>Total deferred tax</b>	<b>1</b>	<b>–</b>
<b>Total tax per income statement</b>	<b>21,591</b>	<b>(75,205)</b>

#### b) Factors affecting the tax charge for the year

The charge for the year can be reconciled to the profit per the income statement as follows:

	2016	2015
	£	£
Profit for the period – continuing operations	78,905	334,793
Tax on profit at standard UK tax rate pf 20.00% (2015: 20.25%)	15,781	67,784
Effects of:		
Expenses not deductible	775,534	783,006
Income not taxable	(1,658,764)	(1,627,096)
Deferred tax not provided	867,450	776,306
Effects of overseas tax rates	21,590	(75,205)
<b>Tax credit for the period</b>	<b>21,591</b>	<b>(75,205)</b>

## Notes to the financial statements

at 31 December 2016

### 7. Tax (continued)

#### c) Factors that may affect future tax charges

In his budget of 8 July 2015, the Chancellor of the Exchequer announced a reduction in the corporation tax rate to 19% for the Financial Year beginning 1 April 2017 and a further reduction to 18% for the Financial Year beginning 1 April 2020. These changes received Royal Assent on 18 November 2015.

The Finance Bill 2016 provides for a further reduction in the corporation tax rate to 17% for the Financial Year beginning 1 April 2020. This change was substantially enacted on 6 September 2016. This rate received Royal Assent on 15 September 2016. As these changes were substantively enacted at the balance sheet date deferred tax has been calculated accordingly in these financial statements.

The above changes to the rate of corporation tax will affect the amount of future cash tax payments to be made by the group.

#### d) Deferred tax

Details of the deferred tax included in the balance sheet can be found in note 16.

### 8. Loss attributable to members of the parent undertaking

The loss dealt with in the financial statements of the parent undertaking is £2,650 (2015 – Profit of £8,827,470).

### 9. Intangible fixed assets

<i>Group</i>	<i>Domain name £</i>	<i>Software £</i>	<i>Education Product Development £</i>	<i>Total £</i>
Cost:				
At 1 January 2016	19,966	-	-	19,966
Transfers	-	34,971	62,841	97,812
Additions	-	16,537	1,644,131	1,660,668
At 31 December 2016	19,966	51,508	1,706,972	1,778,446
Amortisation and impairment:				
At 1 January 2016	2,501	-	-	2,501
Transfers	-	12,375	-	12,375
Amortisation charge for the year	4,567	10,948	-	15,515
Impairment charge for the year	-	-	853,486	853,486
At 31 December 2016	7,068	23,323	853,486	883,877
Net book value:				
At 31 December 2016	12,898	28,185	853,486	894,569
At 1 January 2016	17,465	-	-	17,465

Amortisation of intangible fixed assets is included in administrative expenses.

The parent undertaking held no intangible fixed assets in the year (2015 – £nil).

## Notes to the financial statements

at 31 December 2016

### 9. Intangible fixed assets (continued)

#### Education Product Development

The group capitalised costs in developing and producing Video Based Training DVD's (VBT DVD) in such fields as remote management originally for a specific contract but also for general market opportunities. Given the uncertainty over the contract and market the directors have reviewed the carrying value of the asset and impaired it by 50% in line with a 2 year amortisation policy.

### 10. Tangible fixed assets

<i>Group</i>	<i>Plant and machinery £</i>	<i>Office and computer equipment £</i>	<i>Total £</i>
Cost:			
At 1 January 2016	10,156	688,625	698,781
Transfers	-	(34,971)	(34,971)
Additions	-	121,261	121,261
At 31 December 2016	10,156	774,915	785,071
Depreciation and impairment:			
At 1 January 2016	10,156	529,664	539,820
Transfers	-	(12,375)	(12,375)
Depreciation charge for the year	-	123,547	123,547
At 31 December 2016	10,156	640,836	650,992
Net book value:			
At 31 December 2016	-	134,079	134,079
At 1 January 2016	-	158,961	158,961

The parent undertaking held no tangible fixed assets in the year (2015 – £nil).



## Notes to the financial statements

at 31 December 2016

### 11. Investments

<i>Group</i>	<i>Associated undertakings</i> £
Cost:	
At 1 January 2016	200,000
Disposals	(200,000)
At 31 December 2016	-
Provision:	
At 1 January 2016	175,000
Disposals	(175,000)
At 31 December 2016	-
Net book value:	
At 1 January 2016	25,000
At 31 December 2016	-

During the current financial year the group's investments in the share capital of investee companies were disposed. Details of the investment are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Adventiq Limited	Ordinary shares	20.72%	High technology	England and Wales

The group did not have significant influence over operating and financial policies of Adventiq Limited.

<i>Investments</i>	<i>Subsidiary undertakings</i> £
<i>Parent undertaking</i>	

Cost:	
At 1 January 2016 and 31 December 2016	5,334
	<u>5,334</u>

The company's investments at the balance sheet date in the share capital of companies include the following:

<i>Subsidiary undertakings</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activity</i>
VNC Limited	Ordinary shares	100%	Dormant
RealVNC Limited	Ordinary shares	100%	Software publishing and research
Deskhop Limited	Ordinary shares	100%	Dormant

## Notes to the financial statements

at 31 December 2016

### 12. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	£	£	£	£
<b>Amounts falling due within one year:</b>				
Trade debtors	2,122,078	1,249,560	–	–
Amounts owed by subsidiary undertakings	–	–	56,521	59,171
Other debtors	70,191	67,473	–	–
Prepayments and accrued income	1,269,313	2,108,897	–	–
	<u>3,461,582</u>	<u>3,425,930</u>	<u>56,521</u>	<u>59,171</u>
<b>Amounts falling due within one year:</b>				
Other debtors	1,000,000	1,000,000	–	–
	<u>1,000,000</u>	<u>1,000,000</u>	<u>–</u>	<u>–</u>

Included in trade debtors is an impairment loss of £7,777 (2015 - £72,214).

Included in other debtors falling due after more than one year is £1,000,000 nominal investment in 3% interest limited recourse bonds, due 2018, in Allia Limited.

### 13. Cash and cash equivalents

<i>Group</i>	<i>2016</i>	<i>2015</i>
	£	£
Cash at bank and in hand	<u>4,471,397</u>	<u>4,657,704</u>

### 14. Creditors: amounts falling due within one year

<i>Group</i>	<i>2016</i>	<i>2015</i>
	£	£
Trade creditors	242,846	256,007
Other taxes and social security costs	138,770	130,554
Other creditors	3,892	9,579
Accruals and deferred income	1,469,023	892,231
Deferred tax (Refer to Note 16)	1	–
	<u>1,854,532</u>	<u>1,288,371</u>

The parent undertaking had no creditors in the period (2015 – £nil).

## Notes to the financial statements

at 31 December 2016

### 15. Creditors: amounts falling due after more than one year

<i>Group</i>	<i>2016</i>	<i>2015</i>
	<i>£</i>	<i>£</i>
Accruals and deferred income	<u>166,549</u>	<u>113,457</u>

The parent undertaking had no creditors in the period (2015 – £nil).

### 16. Deferred taxation

<i>Group</i>	<i>2016</i>	<i>2015</i>
	<i>£</i>	<i>£</i>
Arising from:		
Fixed asset timing difference	21,015	20,129
Short term timing difference	(4,494)	(696)
Losses	<u>(16,520)</u>	<u>(19,433)</u>
	<u>1</u>	<u>–</u>
Deferred tax (assets)		
Recoverable within 12 months	<u>(21,014)</u>	<u>(20,129)</u>
	<u>(21,014)</u>	<u>(20,129)</u>
Deferred tax (liabilities)		
Payable within 12 months	<u>21,015</u>	<u>20,129</u>
	<u>21,015</u>	<u>20,129</u>

The group has trading losses available to carry forward of approximately £11,500,000 (2015: £7,300,000). The related deferred tax asset of approximately £2,000,000 (2015: 1,400,000) has not been recognised given the uncertainty over when such losses may be utilised.

### 17. Issued share capital

<i>Group and company</i>		<i>2016</i>		<i>2015</i>
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of £0.01 each	588,498	<u>5,885</u>	588,498	<u>5,885</u>

### 18. Reserves

Called-up share capital – represents the nominal value of shares that have been issued.

Share premium account – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account – includes all current and prior period retained profits and losses.

## Notes to the financial statements

at 31 December 2016

### 19. Leasing commitments

The group's future minimum operating lease payments are as follows:

	2016	2015
	£	£
Within one year	219,238	219,238
Between one and five years	164,429	383,667
	<u>383,667</u>	<u>602,905</u>

### 20. Related party transactions

There has been no trading activity between VNC Group Limited and its subsidiary Real VNC Limited in the period.

### 21. Financial instruments

<i>Group</i>	2016	2015
	£	£
Financial assets that is a debt instruments measured at amortised cost		
Trade and other receivables	3,192,269	2,317,033
Financial liabilities measured at amortised cost		
Trade creditors and other payables	<u>1,882,310</u>	<u>1,271,274</u>

### 22. Events since the balance sheet date

There have been no material events since the balance sheet.