

# **Square Enix Limited**

## **Reports and Financial Statements**

31 March 2016



**Directors**

P Rogers  
M Sherlock

**Secretary**

A Chokshi (appointed 14 May 2015)  
C Osborne (resigned 14 May 2015)

**Auditor**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**Bankers**

Lloyds TSB Bank plc  
10 Gresham Street  
London EC2V 7AE

The Bank of Tokyo-Mitsubishi, UFJ Limited  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AN

Sumitomo Mitsui Banking Corporation Europe Limited  
99 Queen Victoria Street  
London EC4V 4EH

Mizuho Corporate Bank Limited  
London Branch  
Bracken House  
1 Friday Street  
London EC4M 9JA

**Registered Office**

240 Blackfriars Road  
London  
SE1 8NW

Registered No. 01804186

## Strategic report

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

### Principal activity and review of the business

The principal activities of the company are the publishing, licensing, marketing, distribution and development of entertainment software.

The company's key financial and other performance indicators during the period were as follows:-

	2016 £000	2015 £000	change %
Turnover	161,759	56,114	188.3
Gross profit (%)	85.6	70.6	21.2
Shareholder's deficit	(283,889)	(268,725)	5.6

The turnover for the year increased by 188% to £161,759,000 (2015 - £56,114,000). This was due to two major triple A title releases during the current year compared with none in the prior year. Major releases in the current year included Just Cause 3 and Rise of the Tomb Raider. Sales of these titles were supported by other smaller releases and back catalogue sales.

The gross profit margin in the year increased from 70.6% to 85.6%. The current year figure is more in line with the corresponding value from 2014. High research and development costs, consisting largely of amortised development costs of the new games released in the year, in conjunction with increased admin expenses compared with 2015 meant that an operating loss of £43,443,000 (2015 - £29,827,000) was suffered.

Exceptional costs of £8,312,000 (2015 - £10,397,000) were incurred during the year. The current year charge related entirely to the impairment of capitalised development costs arising from reduction in carrying values or complete impairment of the assets.

The shareholder's deficit increased due to the retained loss for the year.

### Principal risks and uncertainties

The company had the following principal risks and uncertainties. The directors regularly monitor all these risks and uncertainties and appropriate actions are taken to mitigate the risks or their potential outcomes.

#### Financial instruments

The company has exposure to foreign currency risk due to various intercompany balances, significant sales to overseas companies and the payments to overseas suppliers. The company seeks to balance the flows of currency across countries to minimise any imbalance of foreign currency receipts and payments.

#### Technological risk

The company has exposure to technological changes which may include the introduction of new hardware platforms and adaption of appropriate software technology to operate on these platforms.

#### Launch of products

The company has exposure to delays in the launch of new product titles, the subsequent impact of the additional costs related to those delays and compliance with new regulations required for a product to be launched in the market. This could impact on the financial performance of the company and its reputation in the market.

Registered No. 01804186

## **Strategic report**

### **Principal risks and uncertainties (continued)**

#### ***Loss of key personnel***

The company has exposure to the loss of key personnel by way of having the appropriate employee skill base to develop new products which would be successful in the market.

On behalf of the Board



P Rogers  
Director  
6 March 2017

Registered No. 01804186

## Directors' report

The directors present their report and financial statements for the year ended 31 March 2016.

### Results and dividends

The loss for the year after taxation amounted to £48,125,000 (2015 – loss of £31,228,000). The directors do not recommend a final dividend (2015 – £nil).

### Future developments

The directors believe that the company will benefit from post-restructuring efficiencies and that the strategic direction will allow the company to continue to develop high quality games, enabling it to exploit the opportunities offered by this growing sector.

### Going concern

The directors have relied upon parental support from the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan, to allow the directors to adopt the going concern basis of accounting. Parental support will allow the company to meet its obligations and liabilities as they fall due should this be required. The directors, having made inquiries of, and having assessed the responses of the directors of the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, consider the ultimate parent undertaking to have sufficient financial resources to fulfil the obligation to provide continuing financial support, to allow the company to meet its obligations and liabilities should financial support be necessary. They have thus concluded that the company is a going concern for at least 12 months from the date of approval of these financial statements.

### Directors

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

P Rogers  
M Sherlock

### 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 auditor will be put to the members at the Annual General Meeting.

On behalf of the Board



P Rogers  
Director  
6 March 2017

## Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 proper 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 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 Square Enix Limited**

We have audited the financial statements of Square Enix Limited for the year ended 31 March 2016 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 23. 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 Financial Reporting Standard FRS 102.

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 5, 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 (APB'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 financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the Reports and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of 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 company's affairs as at 31 March 2016 and of its loss 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 the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditor's report

to the members of Square Enix Limited

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

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.

*Ernst & Young LLP*

Philip Young (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

London

7/3/17



## Statement of comprehensive income

for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
<b>Turnover</b>	2	161,759	56,114
Cost of sales		<u>(23,296)</u>	<u>(16,498)</u>
<b>Gross profit</b>		138,463	39,616
Selling and marketing		(34,085)	(11,601)
Research and development		(107,160)	(30,585)
Administrative expenses	5	(33,592)	(16,067)
Write back/(off) of intercompany debtors	5	1,243	(793)
Exceptional items	8	<u>(8,312)</u>	<u>(10,397)</u>
<b>Operating loss</b>	5	(43,443)	(29,827)
Interest receivable and similar income	6	1,380	1,544
Interest payable and similar charges	7	<u>(6,563)</u>	<u>(2,888)</u>
<b>Loss on ordinary activities before taxation</b>		(48,626)	(31,171)
Tax on ordinary activities	9	(39)	(57)
<b>Loss for the financial year and total comprehensive income</b>		<u><u>(48,665)</u></u>	<u><u>(31,228)</u></u>

All amounts relate to continuing activities.

## Statement of financial position

at 31 March 2016

	Notes	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	10	1,925	2,595
Capitalised development costs	13	14,986	26,681
Tangible assets	11	978	1,493
Investments	12	59,612	59,612
		<u>77,501</u>	<u>90,381</u>
<b>Current assets</b>			
Capitalised development costs	13	50,564	69,255
Stock	14	1,072	707
Debtors	15	49,759	35,019
Cash at bank and in hand		23,158	7,217
		<u>124,553</u>	<u>112,198</u>
<b>Creditors: amounts falling due within one year</b>	16	(485,943)	(471,303)
<b>Net current liabilities</b>		<u>(361,390)</u>	<u>(330,262)</u>
<b>Net liabilities</b>		<u>(283,889)</u>	<u>(268,725)</u>
<b>Capital and reserves</b>			
Called up share capital	18	145,403	111,902
Share premium account		3,102	3,102
Capital redemption reserve		3	3
Profit and loss account		(432,397)	(383,732)
<b>Shareholder's deficit</b>		<u>(283,889)</u>	<u>(268,725)</u>

Approved by the board



P Rogers

Director

6 March 2017

## Statement of changes in equity

for the year ended 31 March 2016

	<i>Notes</i>	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Capital redemption reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 April 2014		111,902	3,102	3	(352,504)	(237,497)
Loss for the year		-	-	-	(31,228)	(31,228)
At 1 April 2015		111,902	3,102	3	(383,732)	(268,725)
Issue of shares	18	33,501	-	-	-	33,501
Loss for the year		-	-	-	(48,665)	(48,665)
At 31 March 2016		145,403	3,102	3	(432,397)	(283,889)

## Notes to the financial statements

at 31 March 2016

### 1. Accounting policies

#### *Statement of compliance*

Square Enix Limited is a limited liability company incorporated in England. The Registered Office is 240 Blackfriars Road, London, SE1 8NW.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 March 2016.

The company transitioned from previously existing UK GAAP to FRS 102 as at 1 April 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in Note 23.

#### *Basis of preparation*

The financial statements have been prepared on the historical cost basis.

The financial statements are prepared in Sterling which is the functional currency of the company.

The nature of operations and its principal activity are set out in the Directors' report.

#### *Going concern*

The company's business activities, together with the factors likely to affect its future development and position, are set out above. The directors have relied upon parental support from the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan, to allow the directors to adopt the going concern basis of accounting. Parental support will allow the company to meet its obligations and liabilities as they fall due should this be required. The directors, having made inquiries of, and having assessed the responses of the directors of the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, consider the ultimate parent undertaking to have sufficient financial resources to fulfil the obligation to provide continuing financial support, to allow the company to meet its obligations and liabilities should financial support be necessary. They have thus concluded that the company is a going concern for at least 12 months from the date of approval of these financial statements.

#### *Group financial statements*

The financial statements contain information about Square Enix Limited as an individual company and do not contain financial statements information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirements to prepare group financial statements for the period to 31 March 2016 as it and its subsidiary undertakings are included in the group financial statements of its ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan.

#### *Statement of cash flows*

The company has taken advantage of the exemption to prepare a statement of cash flows under Financial Reporting Standard 102. The company is a wholly owned subsidiary of a UK parent, Square Enix of Europe Holdings Limited, whose ultimate parent undertaking is Square Enix Holdings Co., Ltd. Square Enix Holdings Co., Ltd prepares group financial statements, which are publically available from Shinjuku Eastside Square, 6-27-30 Shinjuku, Shinjuku-ku, Tokyo, 160-8430, Japan.

#### *Disclosure exemptions*

In accordance with FRS 102 Section 33, the company has taken advantage of the exemptions for subsidiary undertakings, whose 100% of voting rights are controlled within a group, from the requirement to disclose related party transactions.

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

The preparation of 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.

## Notes to the financial statements

at 31 March 2016

### 1. Accounting policies (continued)

#### *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

#### *Operating lease commitments*

The Company has entered into property, plant and equipment leases as a lessee. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the requires an asset and liability to be recognised in the balance sheet.

#### *Provision for price protection*

Management judgement is required to determine the amount of provision to be recognised for price protection sales credit notes. Judgement is based on management's knowledge of market conditions, analysis of the performance of individual titles and evidence obtained from previous price protection claims.

#### *Capitalisation and amortisation of development costs*

Management judgement is applied in determining whether the criteria for capitalising costs incurred in the development of new games have been met. Additionally, judgement based on management's knowledge and experience of expected revenue flows is used to determine appropriate periods over which the costs are amortised.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Leasehold improvements	–	over the life of the lease
Fixtures, fittings and office equipment	–	20% per annum straight line
Computer equipment	–	33% per annum straight line

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*

Investments held as fixed assets are stated at cost less provision for any permanent impairment in value. The carrying values are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Capitalised development costs*

Capitalised development costs correspond to the costs incurred in the development of new games to the extent that the company has determined that:

- the game is technically and commercially feasible;
- the game clearly is defined and related expenditure is separately identifiable;
- current and future costs are expected to be exceeded by future earnings;
- the company has the intention and ability to complete the game; and
- adequate resources exist for the product to be completed;

## Notes to the financial statements

at 31 March 2016

### 1. Accounting policies (continued)

Game costs are amortised over the period that, based on historical experience, prudently simulates the expected flow of revenues from the game, in the period starting from the month of release. Internally developed software costs are amortised on a straight line basis at 33% per annum.

At the close of each fiscal year game costs are reviewed by project for any loss of value compared to the net book value at that time. Where the expected future contribution of a game does not exceed the total expected costs to complete the development an impairment provision is made.

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

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company 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 charge 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.

#### ***Stocks***

Stocks comprise finished goods for resale, and are stated at the lower of cost and net realisable value. Cost is calculated as cost of materials. Net realisable value is based on estimated selling price, less further disposal costs.

#### ***Cash***

Cash and cash equivalents in the balance sheet comprise cash banks and in hand and short term deposits with an original maturity date of three months or less.

#### ***Short term debtors and creditors***

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

#### ***Revenue recognition***

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

#### ***Sales of goods***

Sales of games to retailers and external distributors at invoiced and accrued amounts less value added tax and provision against any subsequent returns. Turnover from sales of games is recognised at the point at which the game is delivered. The company makes provision against any subsequent returns or price protection.

#### ***Royalty revenue from distributors***

Royalty payments received or accrued from external distributors under licence of the right to distribute games in certain territories. Where advance payments against royalties are received under licence in so far as the company's obligations have been fulfilled such advances are recognised at the point at which they become non-returnable; and

#### ***Royalty revenue from licence agreements***

Royalty payments received or accrued from third parties under licence of the right to exploit the Group's intellectual property on other media. These are recognised on an accruals basis in accordance with the substance of the relevant contracts.

## Notes to the financial statements

at 31 March 2016

### 1. Accounting policies (continued)

#### *Agency agreement*

Square Enix (2009) Limited appointed Square Enix Limited as its authorised agent pursuant to an agency agreement between both parties entered into on 9 November 2009. Square Enix Limited transfers to Square Enix (2009) Limited the revenue it collects as its agent, and charges a management charge for performing its duties.

#### *Interest income*

Revenue is recognised as interest accrues.

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Research expenditure*

Research expenditure is written off as incurred, except for development expenditure incurred on an individual project which is capitalised when it is relatively assured there will be future economic benefits generated.

#### *Foreign currencies*

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

#### *Operating leases*

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

#### *Pensions*

The company pays specified pension contributions to certain employees' private pension schemes on a monthly basis. Other than this, the company has no ongoing commitment. Consequently no provision for pension obligations is necessary. Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

## Notes to the financial statements

at 31 March 2016

### 2. Turnover

All turnover and profits originate from the UK and relate to the principal activity of the company.

#### *Segmental analysis by geographical areas by destination*

	2016	2015
	£000	£000
United Kingdom	18,430	9,083
France	3,044	3,296
Germany	16,519	5,769
Rest of Europe	18,291	8,591
United States of America	74,382	17,537
Rest of the world	31,094	11,838
	<u>161,759</u>	<u>56,114</u>

### 3. Staff costs

Staff costs consist of:

	2016	2015
	£000	£000
Wages and salaries	9,853	8,450
Social security costs	1,095	837
Other pension costs	767	650
Payments in lieu of notice*	-	955
	<u>11,715</u>	<u>10,892</u>

\*The payments in lieu of notice include £nil (2015: £28,000) of social security costs.

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

	No.	No.
Administration	128	126
Development	92	90
	<u>220</u>	<u>216</u>



## Notes to the financial statements

at 31 March 2016

### 4. Directors' remuneration

	2016 £000	2015 £000
Remuneration	1,000	555
Company contributions paid to defined contribution pension schemes	66	30

For the first four months of the year all directors of the company were wholly remunerated for their qualifying services by the parent company Square Enix of Europe Holdings Limited. One of the directors was also a director of Square Enix of Europe Holdings Limited but his remuneration is disclosed here as his services to the parent company are incidental to his services to Square Enix Limited.

In respect of the highest paid director of Square Enix Limited:

	2016 £000	2015 £000
Remuneration	538	498
Company contributions paid to defined contribution pension schemes	30	30

### 5. Operating loss

This is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation of owned fixed assets	999	1,222
Auditor's remuneration – audit services *	430	-
Auditor's remuneration – tax services *	8	-
Management charge issued from immediate parent company **	2,385	7,234
Management charge issued to fellow group company ***	(9,367)	(12,183)
Rentals under operating leases – plant and machinery	2	2
– other operating leases	929	710
Loss/(profit) on foreign exchange	8,853	(118)
Write (back)/off of intercompany debtors ****	(1,243)	793

\* In the prior year the auditor's remuneration was incurred by a fellow group undertaking, Square Enix of Europe Holdings Limited.

\*\* This management charge was made to Square Enix Ltd from the immediate parent undertaking, Square Enix of Europe Holdings Limited, in relation to administrative services provided to Square Enix Limited.

\*\*\* This management charge was made from Square Enix Limited, in relation to administrative services provided by them in relation to the agency relationship that exists between Square Enix (2009) Limited and Square Enix Limited.

\*\*\*\* The current year write back was the reversal of provision against an intercompany balance that was fully provided for at the prior balance sheet date but partially recovered during the current year.

## Notes to the financial statements

at 31 March 2016

### 6. Interest receivable and similar income

	2016 £000	2015 £000
Other interest receivable	-	1
Amounts receivable from group undertakings	1,380	1,543
	<u>1,380</u>	<u>1,544</u>

### 7. Interest payable and similar charges

	2016 £000	2015 £000
Amounts payable to group undertakings	6,313	2,874
Other interest payable	250	14
	<u>6,563</u>	<u>2,888</u>

### 8. Exceptional items

This is stated after charging:

	2016 £000	2015 £000
Impairment of capitalised development costs*	8,312	10,397
	<u>8,312</u>	<u>10,397</u>

\* This charge relates to the impairment of capitalised development costs of products that were in development during the prior and current year.

## Notes to the financial statements

at 31 March 2016

### 9. Tax

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2016 £000	2015 £000
<b>Current tax:</b>		
Withholding tax expense	39	57
Total current tax (note 9(b))	<u>39</u>	<u>57</u>

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 – 21%). The differences are explained below:

	2016 £000	2015 £000
Loss on ordinary activities before tax	<u>(48,626)</u>	<u>(31,171)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 21%)	(9,725)	(6,546)
<b>Effects of:</b>		
Expenses disallowed for tax purposes	1,081	642
Group relief losses	-	361
Current year losses unable to be utilised in the current year	8,644	5,543
Withholding tax expense	39	57
Current tax for the year (note 9(a))	<u>39</u>	<u>57</u>

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

On 26 October 2015 the Summer Finance Bill 2015, which reduces the main rate of corporation tax to 19% from April 2017 and 18% from April 2020, was substantially enacted.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date. Therefore, the unrecognised deferred tax is measured at 18% in the current period.

## Notes to the financial statements

at 31 March 2016

### 10. Intangible fixed assets

	<i>Computer software</i> £000	<i>Internally developed software</i> £000	<i>Total</i> £000
Cost:			
At 1 April 2015	3,619	5,918	9,537
Additions	364	872	1,236
Disposals	-	-	-
At 31 March 2016	3,983	6,790	10,773
Depreciation:			
At 1 April 2015	3,186	3,756	6,942
Charge for the year	297	1,609	1,906
Disposals	-	-	-
At 31 March 2016	3,483	5,365	8,848
Net book value:			
At 31 March 2016	500	1,425	1,925
At 1 April 2015	433	2,162	2,595

### 11. Tangible fixed assets

	<i>Leasehold improvements</i> £000	<i>Computer equipment</i> £000	<i>Fixtures and fittings</i> £000	<i>Total</i> £000
Cost:				
At 1 April 2015	333	4,298	51	4,682
Additions	2	176	10	188
Disposals	-	(6)	-	(6)
At 31 March 2016	335	4,468	61	4,864
Depreciation:				
At 1 April 2015	56	3,107	27	3,189
Charge for the year	101	592	8	701
Disposals	-	(6)	-	(6)
At 31 March 2016	157	3,693	35	3,884
Net book value:				
At 31 March 2016	178	775	26	980
At 1 April 2015	277	1,191	24	1,493

The company does not hold any assets held under finance leases.

## Notes to the financial statements

at 31 March 2016

### 12. Investments

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 April 2015	67,238
Additions	-
Disposals	-
At 31 March 2016	<u>67,238</u>
Provision against investments:	
At 1 April 2015	7,626
Additions	-
Disposals	-
At 31 March 2016	<u>7,626</u>
Net book value:	
At 31 March 2016	<u>59,612</u>
At 1 April 2015	<u>59,612</u>

The subsidiary undertakings at 31 March 2016 were as follows:

<i>Name</i>	<i>Country of incorporation</i>	<i>Class of shares held</i>	<i>Proportion of ordinary share capital held</i>	<i>Nature of business</i>
Crystal Dynamics, Inc*	USA	Ordinary shares	100%	Developer of entertainment software
IO Interactive A/S**	Denmark	Ordinary shares of DKK1000 each	100%	Developer of entertainment software
Eidos Interactive Corporation	Canada	Ordinary shares	100%	Developer of entertainment software
Eidos Creative Software Development (Shanghai) Co. Limited***	China	Ordinary shares	100%	Interactive Entertainment Software
Square Enix SARL	France	Ordinary shares of €7,623	100%	Promotion of entertainment software
Square Enix GmbH	Germany	Ordinary shares	100%	Promotion of entertainment software
Eidos Inc	USA	Ordinary shares	100%	Parent undertaking
IO Interactive Holdings S/A	Denmark	Ordinary shares of DKK1000 each	100%	Parent undertaking
SCi Games Limited	England	Ordinary shares	100%	Parent undertaking

## Notes to the financial statements

at 31 March 2016

### 12. Investments (continued)

All of the above companies operate principally in their country of incorporation.

\* Held indirectly through Eidos Inc

\*\*Held indirectly by IO Interactive Holdings S/A

\*\*\*Held indirectly by SCi Games Limited

### 13. Capitalised development costs

	2016 £000	2015 £000
At 1 April 2015	98,098	60,596
Capitalised in the year	62,834	63,522
Released to profit and loss	(85,645)	(15,623)
Impairment released to profit and loss (note 8)	(8,312)	(10,397)
At 31 March 2016	<u>66,975</u>	<u>98,098</u>

### 14. Stocks

	2016 £000	2015 £000
Raw materials and consumables	193	116
Finished goods	879	591
	<u>1,072</u>	<u>707</u>

### 15. Debtors

	2016 £000	2015 £000
Trade debtors	1,054	1,779
Other debtors	3,182	3,359
Prepayments and accrued income	13,823	5,912
Amounts receivable from fellow group undertakings	31,700	23,969
	<u>49,759</u>	<u>35,019</u>

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

	2016 £000	2015 £000
Trade creditors	3,899	6,581
Amounts payable to fellow group undertakings	448,790	435,028
Other creditors	299	331
Accruals and deferred income	32,684	28,997
Other taxes and social security costs	271	366
	<u>485,943</u>	<u>471,304</u>

## Notes to the financial statements

at 31 March 2016

### 17. Deferred taxation

	2016 £000	2015 £000
Recognised tax assets		
Tax effect of losses carried forward	-	-
	2016 £000	2015 £000
Unrecognised tax assets		
Difference between tax allowances and book depreciation of fixed assets	2,428	2,795
Tax effect of losses carried forward	60,392	58,450
	<u>62,820</u>	<u>61,245</u>

In accordance with FRS 19, the recognition of a deferred tax asset has been limited to the extent that the company anticipates making sufficient taxable profits in the near future to absorb the reversal of the underlying timing differences.

### 18. Issued share capital

	No.	2016 £000	No.	2015 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	33,668,515	33,669	167,963	168
Ordinary 'A' shares of 5p each	1,800,076,760	90,004	1,800,076,760	90,004
Ordinary 'B' shares of £1 each	21,730,281	21,730	21,730,281	21,730
	1,855,475,556	<u>145,403</u>	1,821,975,004	<u>111,902</u>

The 'A' ordinary shares are non-voting but otherwise rank pari passu with the £1 ordinary shares.

On 24 June 2004 the company increased the authorised share capital from £206,750 to £25,206,750 by the creation of 25,000,000 'B' ordinary shares of £1 each. The new class of "B" ordinary shares rank pari passu with the ordinary shares except as expressly provided otherwise in the company's Articles of Association.

On 1 September the company issued 33,500,552 new £1 ordinary shares at par. The shares were issued to the company's immediate parent, Square Enix of Europe Holdings Limited, in a debt to equity conversion. The value of the consideration received was £33,500,552.

## Notes to the financial statements

at 31 March 2016

### 19. Financial instruments

	2016	2015
	£000	£000
<i>Financial assets that are equity instruments measured at cost less impairment</i>		
Unlisted investments	59,612	59,612
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Cash	23,158	7,217
Debtors	35,936	29,107
<i>Financial liabilities measured at amortised cost</i>		
Creditors	(453,259)	(442,307)

### 20. Other financial commitments

At 31 March 2016 the company had total commitments under non-cancellable operating leases as set out below:

	2016		2015	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	2,394	2	1,760	2
In two to five years	5,549	7	7,943	-
Over five years	-	2	-	-
	<u>7,943</u>	<u>11</u>	<u>9,703</u>	<u>2</u>

### 21. Post balance sheet events

After the balance sheet date, the trade and assets of the immediate parent company, Square Enix of Europe Holdings Limited, were transferred to the company for consideration of £1.

On 1 April 2016, the company entered into an agreement with Square Enix Co., LTD ("SEJ") for the distribution of SEJ titles outside of Japan. This replaced an existing identical agreement between SEJ and Square Enix (2009) Limited, a fellow group subsidiary.

### 22. Ultimate parent undertaking and controlling party

As at 31 March 2016, the company's immediate parent undertaking was Square Enix of Europe Holdings Limited, a company registered and incorporated in the UK. The ultimate parent undertaking and controlling party was Square Enix Holdings Co., Ltd, incorporated in Japan. Square Enix Holdings Co., Ltd is the smallest and largest group of undertakings for which group financial statements are prepared. Group financial statements for Square Enix Holdings Co., Ltd are available from Shinjuku Eastside Square, 6-27-30 Shinjuku, Shinjuku-ku, Tokyo 160-8430, Japan.



## Notes to the financial statements

at 31 March 2016

### 23. Transition to FRS 102

The company transitions to FRS 102 from previously extant UK GAAP as at 1 April 2014. The impact from the transition to FRS 102 is as follows:

#### **Intangible assets**

Under previous UK GAAP, the company held Purchased software in Tangible fixed assets and Internally developed software in Capitalised development costs in Current assets. Under FRS 102, the company is required to classify Purchased software and Internally developed software in Intangible assets. The impact is to increase Intangible assets by £2,595,000 at 31 March 2015, with a £433,000 decrease in Tangible fixed assets and a £2,162,000 decrease in Capitalised development costs.

#### **Capitalised development costs**

Under previous UK GAAP, the company held Capitalised development costs in Current assets. Under FRS 102, the company is required to classify those development costs not expected to be amortised within one year in Fixed assets. The impact is to increase Capitalised development costs in Fixed assets by £26,681,000, with a corresponding £26,681,000 decrease in Capitalised development costs in Current assets.

#### **Transitional relief**

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional reliefs as follows:

#### **Business combinations**

The group has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets subsumed within goodwill have not been separately recognised.

#### **Investment in subsidiaries**

The company has elected to treat the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.