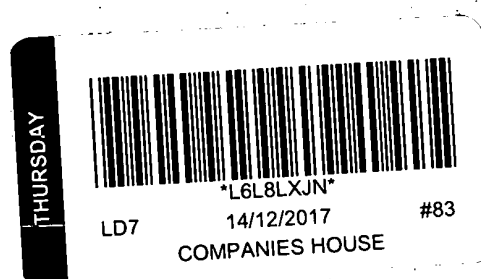


Square Enix Limited

Reports and Financial Statements

31 March 2017



Directors

P Rogers
M Sherlock
Y Matsuda (appointed 1 April 2016)

Secretary

A Chokshi

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 2017.

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:-

	2017 £000	2016 £000	change %
Turnover	288,061	161,759	78.1
Gross profit (%)	68.7	85.6	(19.7)
Shareholder's deficit	(282,560)	(283,889)	(0.5)

The turnover for the year increased by 78.1% to £288,061,000 (2016 - £161,759,000). This was due to the agreement into which the company entered on 1 April 2016 with Square Enix Co., LTD ("SEJ") for the distribution of SEJ titles outside of Japan. Final Fantasy XV, an SEJ title released during the year, was a particularly high selling title in the year.

The gross profit margin in the year decreased from 85.6% to 68.7%. This is a result of the new SEJ distribution agreement, under which the company pays a royalty to SEJ upon distribution of all SEJ titles, and therefore the margin earned on SEJ title sales is lower than on other titles. The increased turnover in the current year, together with control over the increase in admin expenses meant that an operating profit of £8,217,000 (2016 - loss of £43,443,000) was achieved.

Exceptional costs of £2,169,000 (2016 - £8,312,000) were incurred during the year. The current and prior year charges 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 decreased due to the retained profit 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

14 December 2017

Registered No. 01804186

Directors' report

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

Results and dividends

The profit for the year after taxation amounted to £1,329,000 (2016 – loss of £48,665,000). The directors do not recommend a final dividend (2016 – £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
Y Matsuda

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
14 December 2017

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 2017 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position 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 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 2017 and of its 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 and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements
- the Strategic and Directors' report has been prepared in accordance with applicable legal requirements.

Independent auditor's report

to the members of Square Enix Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit we have identified no material misstatements in the Strategic and 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.

Ernst & Young LLP

Philip Young (Senior Statutory Auditor)

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

London

14/12/17

Statement of comprehensive income

for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Turnover	2	288,061	161,759
Cost of sales		(90,220)	(23,296)
Gross profit		197,841	138,463
Selling and marketing		(35,969)	(34,085)
Research and development		(101,315)	(107,160)
Administrative expenses	5	(48,318)	(33,592)
Write (off)/back of intercompany debtors	5	(1,853)	1,243
Exceptional items	8	(2,169)	(8,312)
Operating profit/(loss)	5	8,217	(43,443)
Interest receivable and similar income	6	1,473	1,380
Interest payable and similar charges	7	(8,312)	(6,563)
Profit/(loss) on ordinary activities before taxation		1,378	(48,626)
Tax on ordinary activities	9	(49)	(39)
Profit/(loss) for the financial year and total comprehensive income		1,329	(48,665)

All amounts relate to continuing activities.

Statement of financial position

at 31 March 2017

	Notes	£000	2017 £000	2016 £000
Fixed assets				
Intangible assets	10		2,978	1,925
Capitalised development costs	13		60,321	14,986
Tangible assets	11		691	978
Investments	12		59,612	59,612
			123,602	77,501
Current assets				
Capitalised development costs	13		3,830	50,564
Stock	14		4,079	1,072
Debtors:				
amounts falling due within one year		56,330		49,759
amounts falling due after one year		1,442		
	15		57,772	49,759
Cash at bank and in hand			43,964	23,158
			109,644	124,553
Creditors: amounts falling due within one year	16		(515,806)	(485,943)
Net current liabilities			(406,162)	(361,390)
Net liabilities			(282,560)	(283,889)
Capital and reserves				
Called up share capital	18		145,403	145,403
Share premium account			3,102	3,102
Capital redemption reserve			3	3
Profit and loss account			(431,068)	(432,397)
Shareholder's deficit			(282,560)	(283,889)

Approved by the board


P Rogers

Director

14 December 2017

Statement of changes in equity

for the year ended 31 March 2017

	<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 2015		111,902	3,102	3	(383,732)	(268,725)
Issue of shares		33,501	-	-	-	33,501
Loss for the year		-	-	-	(48,665)	(48,665)
At 1 April 2016		145,403	3,102	3	(432,397)	(283,889)
Profit for the year		-	-	-	1,329	1,329
At 31 March 2017		145,403	3,102	3	(431,068)	(282,560)

Notes to the financial statements

at 31 March 2017

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 2017.

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 2017 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.

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.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

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.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are restated at cost less amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. 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 useful economic lives of intangible assets are as follows:

Computer software	–	33% per annum straight line
Internally developed software	–	33% per annum straight line

If there are indicators that the carrying value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ, the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

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.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

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;

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.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

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.

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. Under the agreement, Square Enix Limited transferred to Square Enix (2009) Limited the revenue it collected as its agent, and charged a management charge for performing its duties. The agency agreement ended on 1 April 2016.

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.

Notes to the financial statements

at 31 March 2017

1. Accounting policies (continued)

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.

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

	2017 £000	2016 £000
United Kingdom	39,830	18,430
France	12,916	3,044
Germany	68,018	16,519
Rest of Europe	51,193	18,291
United States of America	66,965	74,381
Rest of the world	49,139	31,094
	<u>288,061</u>	<u>161,759</u>

3. Staff costs

Staff costs consist of:

	2017 £000	2016 £000
Wages and salaries	10,529	9,853
Social security costs	1,203	1,095
Other pension costs	845	767
Payments in lieu of notice	50	-
	<u>12,627</u>	<u>11,715</u>

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

	2017 No.	2016 No.
Administration	126	128
Development	90	92
	<u>216</u>	<u>220</u>

Notes to the financial statements

at 31 March 2017

4. Directors' remuneration

	2017 £000	2016 £000
Remuneration	685	1,000
Company contributions paid to defined contribution pension schemes	10	66
In respect of the highest paid director of Square Enix Limited:		
	2017 £000	2016 £000
Remuneration	488	538
Company contributions paid to defined contribution pension schemes	-	30

5. Operating profit/(loss)

This is stated after charging/(crediting):

	2017 £000	2016 £000
Depreciation of owned fixed assets	740	701
Depreciation of intangible fixed assets	1,391	1,906
Auditor's remuneration – audit services	437	430
Auditor's remuneration – tax services	34	8
Management charge issued from immediate parent company *	-	2,385
Management charge issued to fellow group company **	-	(9,367)
Rentals under operating leases – plant and machinery	9	2
– other operating leases	910	929
Loss on foreign exchange	11,564	8,853
Write off/(back) of intercompany debtors ***	1,853	(1,243)

* The prior year 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.

** The prior year management charge was made from Square Enix Limited, in relation to administrative services provided by the company in relation to the agency relationship that existed between Square Enix (2009) Limited and Square Enix Limited.

*** The prior year write back was the reversal of provision against an intercompany balance that was fully provided for at the 2015 balance sheet date but partially recovered during the prior year.

Notes to the financial statements

at 31 March 2017

6. Interest receivable and similar income

	2017 £000	2016 £000
Amounts receivable from group undertakings	1,473	1,380
	<u>1,473</u>	<u>1,380</u>

7. Interest payable and similar charges

	2017 £000	2016 £000
Amounts payable to group undertakings	7,954	6,313
Other interest payable	358	250
	<u>8,312</u>	<u>6,563</u>

8. Exceptional items

This is stated after charging:

	2017 £000	2016 £000
Impairment of capitalised development costs	2,169	8,312
	<u>2,169</u>	<u>8,312</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 2017

9. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2017 £000	2016 £000
Current tax:		
Withholding tax expense	49	39
Total current tax (note 9(b))	<u>49</u>	<u>39</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% (2016 – 20%). The differences are explained below:

	2017 £000	2016 £000
Profit/(loss) on ordinary activities before tax	<u>1,378</u>	<u>(48,626)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 – 20%)	276	(9,725)
Effects of:		
Expenses disallowed for tax purposes	2,035	1,081
Previously unrecognised losses utilised in the current year	(2,311)	-
Current year losses unable to be utilised in the current year	-	8,644
Withholding tax expense	49	39
Current tax for the year (note 9(a))	<u>49</u>	<u>39</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 2017

10. Intangible fixed assets

	<i>Computer software £000</i>	<i>Internally developed software £000</i>	<i>Total £000</i>
Cost:			
At 1 April 2016	3,983	6,790	10,773
Additions	220	2,224	2,444
At 31 March 2017	4,203	9,014	13,217
Depreciation:			
At 1 April 2016	3,483	5,365	8,848
Charge for the year	306	1,085	1,391
At 31 March 2017	3,789	6,450	10,239
Net book value:			
At 31 March 2017	415	2,564	2,978
At 1 April 2016	500	1,425	1,925

11. Tangible fixed assets

	<i>Leasehold improvements £000</i>	<i>Computer equipment £000</i>	<i>Fixtures and fittings £000</i>	<i>Total £000</i>
Cost:				
At 1 April 2016	335	3,980	45	4,360
Additions	-	453	-	453
At 31 March 2017	335	4,433	45	4,813
Depreciation:				
At 1 April 2016	157	3,205	20	3,382
Charge for the year	102	630	8	740
At 31 March 2017	259	3,835	28	4,122
Net book value:				
At 31 March 2017	76	598	17	691
At 1 April 2016	178	775	25	978

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

Notes to the financial statements

at 31 March 2017

12. Investments

*Subsidiary
undertakings
£000*

Cost:

At 1 April 2016 and 31 March 2017

67,328

Provision against investments:

At 1 April 2016 and 31 March 2017

7,626

Net book value:

At 1 April 2016 and 31 March 2017

59,612

The subsidiary undertakings at 31 March 2017 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

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

Notes to the financial statements

at 31 March 2017

13. Capitalised development costs

	2017 £000	2016 £000
At 1 April 2016	65,550	95,936
Capitalised in the year	69,271	61,961
Released to profit and loss	(68,501)	(84,035)
Impairment released to profit and loss (note 8)	(2,169)	(8,312)
At 31 March 2017	<u>64,151</u>	<u>65,550</u>

14. Stocks

	2017 £000	2016 £000
Raw materials and consumables	1,054	193
Finished goods	3,025	879
	<u>4,079</u>	<u>1,072</u>

15. Debtors

	2017 £000	2016 £000
Trade debtors	8,313	1,054
Other debtors	2,589	3,182
Prepayments and accrued income	13,561	13,823
Amounts receivable from fellow group undertakings	31,867	31,700
	<u>56,330</u>	<u>49,759</u>

Amounts falling due after more than one year included above are:

	2017 £000	2016 £000
Prepayments and accrued income	1,388	-
Amounts receivable from fellow group undertakings	54	-
	<u>1,442</u>	<u>-</u>

16. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	3,525	3,899
Amounts payable to fellow group undertakings	478,330	448,790
Other creditors	111	299
Accruals and deferred income	33,536	32,684
Other taxes and social security costs	304	271
	<u>515,806</u>	<u>485,943</u>

Notes to the financial statements

at 31 March 2017

17. Deferred taxation

	2017 £000	2016 £000
Recognised tax assets		
Tax effect of recognising previously unrecognised tax losses	(2,311)	-
Current year charge	2,311	-
Deferred tax for the year	-	-
	2017 £000	2016 £000
Unrecognised tax assets		
Difference between tax allowances and book depreciation of fixed assets	3,153	2,428
Tax effect of losses carried forward	58,302	60,392
	61,456	62,820

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.	2017 £000	No.	2016 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	33,668,515	33,669	33,668,515	33,669
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	145,403	1,855,475,556	145,403

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

On 24 June 2004 the company increased its 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 2015 the company issued 33,500,552 new £1 ordinary shares at par. The shares were issued to the company's immediate parent at the time, 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 2017

19. Financial instruments

	2017	2016
	£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	43,963	23,158
Debtors	42,769	35,936
<i>Financial liabilities measured at amortised cost</i>		
Creditors	(492,456)	(453,259)

20. Other financial commitments

At 31 March 2017 the company had total commitments under non-cancellable operating leases as set out below:

	2017		2016	
	<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	2,329	2	2,394	2
In two to five years	3,219	7	5,549	7
Over five years	-	-	-	2
	<u>5,548</u>	<u>9</u>	<u>7,943</u>	<u>11</u>

21. Post balance sheet events

On 9 June 2017 the company disposed of 80.01% of its indirect shareholding in IO Interactive A/S for consideration of DKK 525,330.

22. Ultimate parent undertaking and controlling party

As at 31 March 2017, the company's immediate and ultimate parent undertaking and controlling party was Square Enix Holdings Co., Ltd, incorporated in Japan. Square Enix Holdings Co., Ltd is the parent of 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.