

Railsimulator.com Limited

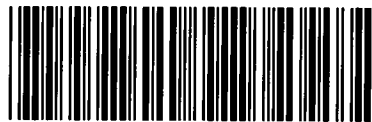
Annual Report and Financial Statements

Year Ended

31 March 2018

Company Number 06751125

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Railsimulator.com Limited

Company Information

Directors	P S Jackson C N McMicking W S Bainbridge J L Rissik M H Storey Mrs G L Johnson-Brown (appointed 2 May 2018)
Registered number	06751125
Registered office	First Floor The Observatory Brunel Chatham Maritime Chatham Kent ME4 4NT
Independent auditor	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

Railsimulator.com Limited

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Railsimulator.com Limited

Strategic Report For the Year Ended 31 March 2018

The directors present their strategic report together with the audited financial statements for the year ended 31 March 2018.

Financial Report

The results for the year and financial position at the year-end are as shown in the annexed financial statements. For the year, the company grew revenues by 17% to £13.8 million. The Board is pleased with this growth and finds revenue increases in its trains and fishing franchises, which grew by 23%, to be extremely positive for the future.

Key Highlights

- The first additional content was released for Train Sim World, including Great Western Express and Rapid Transit which utilised the Unreal 4 game engine.
- Continued improvement and delivery of content to existing Train Simulator products.
- Released Euro Fishing on Sony PlayStation 4 (also available on Microsoft Xbox One).
- Released Train Sim World: Founders Edition on Microsoft Xbox One, the company's first train simulator on console format.

Business Review

2017-18 was another year of investment for the company. This investment is critical to establishing our base platforms for longer term success. The company is very excited to have developed and been able to bring to our players Train Sim World on Microsoft Xbox One, and Euro Fishing on Sony PlayStation 4, both of which have proved to be popular.

It was announced post year-end that the company made the decision to cease development of Flight Sim World and has removed this product from sale. This will allow the company to focus on its successful multi-format train and fishing franchises.

Principal risks and uncertainties

The principal risks and uncertainties affecting the company include the performance of global economies and the threat of competition.

The loss of key members of staff is another principal risk, and the company provides a range of incentives to maintain key employees to mitigate this including a share option scheme.

Reliance is placed on third party distributors to sell the company's products. The company has recently created its own store and is now truly multi-platform.

Furthermore, the company uses distributors who are based overseas and, as such, is subject to the risk of adverse movements in currency exchange rates. Exposure is managed through timing of foreign currency purchases, and, where appropriate obtaining certain financial instruments with financial institutions such as its bank.

Railsimulator.com Limited

Strategic Report (continued) For the Year Ended 31 March 2018

Financial key performance indicators

The company uses a range of key performance indicators to monitor and manage its activities effectively, with the most significant of these indicators being:

	2018	2017
Revenue	£13.8 million	£11.8 million
Gross profit margin	51.9%	46.5%
Adjusted earnings	£446,461	(£896,073)

Adjusted earnings is made up of earnings including video games tax credit but before depreciation and amortisation, interest, monitoring and transactional fees and deferred taxation.

This report was approved by the board on 26th July 2018 and signed on its behalf.


C N McMicking
Director

Railsimulator.com Limited

Directors' Report For the Year Ended 31 March 2018

The directors present their report together with the audited financial statements for the year ended 31 March 2018.

Principal activity

The principal activity of the company during the year was the creation of realistic simulation video games.

Results and dividends

The loss for the year, after taxation, amounted to £141,882 (2017 - loss of £1,905,267).

The directors do not recommend payment of a dividend during the year (2017 - £Nil).

Directors

The directors who served during the year were:

P S Jackson
C N McMicking
W S Bainbridge
J L Rissik
M H Storey

Subsequent to the year-end, on 2 May 2018, Mrs G L Johnson-Brown was appointed as director.

Business review

A review of the business and its principal risks and uncertainties is set out in the strategic report on page 1 of these financial statements.

Disclosure of information to auditor

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

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

Subsequent events

There have been no significant events affecting the company since the year end.

Railsimulator.com Limited

Directors' Report (continued) For the Year Ended 31 March 2018

Auditor

The auditor, BDO LLP, who was appointed in the year, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 26th July 2018 and signed on its behalf.

C N McMicking
Director

A large, stylized handwritten signature in black ink, appearing to read 'C N McMicking', is written over the printed name and title.

Railsimulator.com Limited

Directors' Responsibilities Statement For the Year Ended 31 March 2018

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). 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 judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

Railsimulator.com Limited

Independent Auditor's Report to the Members of Railsimulator.com Limited

Opinion

We have audited the financial statements of Railsimulator.com Limited ("the company") for the year ended 31 March 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Railsimulator.com Limited

Independent Auditor's Report to the Members of Railsimulator.com Limited (continued)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Railsimulator.com Limited

Independent Auditor's Report to the Members of Railsimulator.com Limited (continued)

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

BDO LLP

Nick Poulter (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Guildford
United Kingdom

Date: **26 JUL 2018**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Railsimulator.com Limited

Statement of Comprehensive Income For the Year Ended 31 March 2018

	Note	2018 £	As restated 2017 £
Turnover	5	13,758,437	11,761,485
Cost of sales		(6,620,765)	(6,290,105)
Gross profit		7,137,672	5,471,380
Administrative expenses		(8,379,670)	(8,302,692)
Other operating income	6	103,775	51,531
Operating loss	7	(1,138,223)	(2,779,781)
Interest payable and expenses	10	(330,347)	(194,405)
Loss before tax		(1,468,570)	(2,974,186)
Tax on loss	11	1,326,688	1,068,919
Loss for the financial year		(141,882)	(1,905,267)

All amounts relate to continuing operations.

There was no other comprehensive income for 2018 (2017: £NIL).

The notes on pages 13 to 28 form part of these financial statements.

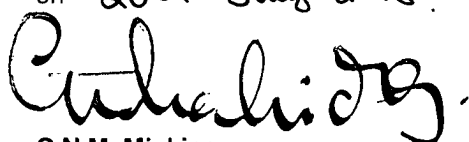
Railsimulator.com Limited

Registered number: 06751125

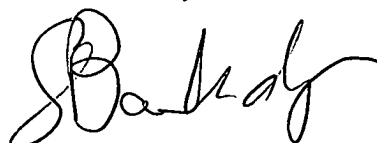
Statement of Financial Position As at 31 March 2018

	Note	2018 £	As restated 2017 £
Fixed assets			
Intangible assets	12	-	847,163
Tangible assets	13	193,347	210,446
Investments	14	1	1
		<u>193,348</u>	<u>1,057,610</u>
Current assets			
Debtors	15	2,807,315	2,320,317
Cash at bank and in hand		840,067	2,172,960
		<u>3,647,382</u>	<u>4,493,277</u>
Creditors: amounts falling due within one year	16	(1,491,474)	(2,422,161)
Net current assets		<u>2,155,908</u>	<u>2,071,116</u>
Total assets less current liabilities		<u>2,349,256</u>	<u>3,128,726</u>
Creditors: amounts falling due after more than one year	17	(4,257,273)	(4,915,718)
Provisions for liabilities			
Deferred tax	19	(26,600)	(37,978)
Net liabilities		<u>(1,934,617)</u>	<u>(1,824,970)</u>
Capital and reserves			
Called up share capital	20	9,947	9,916
Share premium account	21	985,460	978,791
Profit and loss account	21	(2,930,024)	(2,813,677)
		<u>(1,934,617)</u>	<u>(1,824,970)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26th July 2018.



C N McMicking
Director



W S Bainbridge
Director

The notes on pages 13 to 28 form part of these financial statements.

Railsimulator.com Limited

Statement of Changes in Equity For the Year Ended 31 March 2018

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 April 2017	9,916	978,791	(2,813,677)	(1,824,970)
Comprehensive income for the year				
Loss for the year	-	-	(141,882)	(141,882)
Total comprehensive income for the year	-	-	(141,882)	(141,882)
Shares issued during the year	31	6,669	-	6,700
Credit to equity for equity settled share based payment	-	-	25,535	25,535
Total transactions with owners	31	6,669	25,535	32,235
At 31 March 2018	9,947	985,460	(2,930,024)	(1,934,617)

Statement of Changes in Equity For the Year Ended 31 March 2017

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 April 2016	8,084	965,668	(908,410)	65,342
Comprehensive income for the year				
Loss for the year	-	-	(1,905,267)	(1,905,267)
Total comprehensive income for the year	-	-	(1,905,267)	(1,905,267)
Shares issued during the year	1,832	13,123	-	14,955
Total transactions with owners	1,832	13,123	-	14,955
At 31 March 2017	9,916	978,791	(2,813,677)	(1,824,970)

The notes on pages 13 to 28 form part of these financial statements.

Railsimulator.com Limited

Statement of Cash Flows For the Year Ended 31 March 2018

	2018 £	2017 £
Cash flows from operating activities		
Loss for the financial year	(141,882)	(1,905,267)
Adjustments for:		
Amortisation of intangible assets	107,217	108,854
Depreciation of tangible assets	130,989	142,501
Impairments of intangible assets	739,946	-
Loss on disposal of tangible assets	2,418	195
Interest paid	330,347	194,405
Taxation credit	(1,326,688)	(1,068,919)
Increase in debtors	(224,206)	(47,785)
Decrease in creditors	(1,741,520)	(207,042)
Corporation tax received	1,052,518	992,046
Share option expense	25,535	-
Net cash utilised in operating activities	(1,045,326)	(1,791,012)
Cash flows from investing activities		
Purchase of tangible fixed assets	(116,308)	(68,364)
Net cash utilised in investing activities	(116,308)	(68,364)
Cash flows from financing activities		
Issue of ordinary shares	6,700	14,955
New secured loans	-	450,000
Repayment of loans	(149,167)	(160,000)
Other new loans	-	3,500,000
Interest paid	(28,792)	(36,187)
Net cash (utilised in) generated from financing activities	(171,259)	3,768,768
Net (decrease)/increase in cash and cash equivalents	(1,332,893)	1,909,392
Cash and cash equivalents at beginning of year	2,172,960	263,568
Cash and cash equivalents at the end of year	840,067	2,172,960
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	840,067	2,172,960

The notes on pages 13 to 28 form part of these financial statements.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

1. General information

Railsimulator.com Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activity are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Exemption from preparing consolidated financial statements

The company is exempt under section 402 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the directors consider that the company's subsidiary may be excluded from consolidation due to the fact that it was dormant throughout the year and therefore immaterial to the group. These financial statements therefore present information about the company as an individual undertaking and not about its group.

2.3 Going concern

These financial statements have been prepared on the going concern basis. Of amounts owed to creditors, £4,257,273 (2017 - £4,915,718) is due over one year meaning that there is no immediate demand on cashflow for these amounts. The company is in a net current asset position of £2,155,908 (2017 - £2,071,116) which demonstrates that it has sufficient liquid resources to meet its liabilities as they fall due. Furthermore, the Company has contractual access to further funding should it be required.

The rate of growth in the games industry has been strong and this is expected to continue. The Board of Directors have prepared forecasts which indicate that the Company has adequate resources to continue in operational existence for the foreseeable future. These forecasts have taken into account the market growth for digitally distributed content, the initial data on the released games and the uptake of add-ons.

Taking all of the above into account, the directors are of the view that the going concern basis of preparation is appropriate.

2.4 Revenue

The turnover shown in the statement of comprehensive income represents amount invoiced or accrued during the year for units of video games and related add-ons sold, exclusive of Value Added Tax. Revenue is recognised when the end customer purchases a video game or add on and thereby assumes the risks and rewards of ownership.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

2. Accounting policies (continued)

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Software licenses	-	10	years
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If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

2.6 Tangible fixed assets

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

Depreciation of fixed assets

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

The estimated useful lives range as follows:

Leasehold property	-	7	years
Fixtures and fittings	-	5	years
Office equipment	-	3	years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.7 Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

2. Accounting policies (continued)

2.9 Debtors

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

2.10 Cash and cash equivalents

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

In the statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

2.11 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the statement of financial position. Finance costs and gains or losses relating to financial liabilities are included in the statement of comprehensive income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

2.12 Creditors

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

2.13 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the company will comply with the conditions attaching to them and the grants will be received.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.15 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.16 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with fair value of goods and services received.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

2. Accounting policies (continued)

2.17 Operating leases: the company as lessee

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

2.18 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. This unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

2.19 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.20 Research and development

Research and development expenditure is written off in the year in which it is incurred.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had the following judgements:

- Determine whether there are indicators of impairment of the company's tangible and intangible fixed assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets (note 13)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Share option charge (note 22)

The company has granted share options to selected employees and a corresponding share based expense has been recognised. In making its judgement, management considered the detailed guidance in FRS 102 - Share based payments, in particular, guidance around an appropriate valuation model including vesting conditions and period. Following a detailed quantification, management is satisfied that the appropriate expense for share based compensation has been recognised during the year.

4. Prior year adjustment

In the prior year financial statements, an amount of £1,003,333 was stated within other debtors and £9,656 in accruals. These amounts have now been stated as an intangible asset with net book value of £847,163 and a prior year adjustment has been made. A difference for amortisation of £108,854 and cost of sales of £37,668 has been recorded.

5. Turnover

The whole of the turnover is attributable to the principal activity of the company.

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	1,648,451	213,992
Europe	200,050	147,145
Rest of the world	11,909,936	11,400,348
	<u>13,758,437</u>	<u>11,761,485</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

6. Other operating income

	2018 £	2017 £
Other operating income	<u>103,775</u>	<u>51,531</u>

7. Operating loss

The operating loss is stated after charging:

	2018 £	2017 £
Research & development charged as an expense	1,111,506	1,326,134
Depreciation of tangible fixed assets	130,989	142,501
Amortisation of intangible assets, including goodwill	107,217	108,854
Impairment of intangible assets	739,946	-
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	21,000	5,275
Fees payable to the company's auditor and its associates for other services	2,150	4,374
Exchange differences	16,697	16,400
Defined contribution pension cost	<u>52,471</u>	<u>40,822</u>

8. Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £	2017 £
Wages and salaries	4,941,299	4,628,904
Social security costs	565,202	499,322
Cost of defined contribution scheme	52,471	40,822
	<u>5,558,972</u>	<u>5,169,048</u>

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

	2018 No.	2017 No.
Employees	<u>148</u>	<u>126</u>

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Notes to the Financial Statements For the Year Ended 31 March 2018

9. Directors' remuneration

	2018 £	2017 £
Directors' emoluments	453,006	512,931
Social security costs	57,207	72,587
Cost of defined contribution scheme	2,830	2,371
	<u>513,043</u>	<u>587,889</u>

There were 2 directors (2017 - 2) who accrued benefits under the defined contribution pensions scheme during the year.

The directors are considered to be the key management personnel of the company.

10. Interest payable and similar charges

	2018 £	2017 £
Bank interest payable	28,792	36,187
Other loan interest payable	<u>301,555</u>	<u>158,218</u>

11. Taxation

	2018 £	2017 £
Corporation tax		
Video games tax credit repayable	(1,315,310)	(1,052,518)
Total current tax	<u>(1,315,310)</u>	<u>(1,052,518)</u>
Deferred tax		
Origination and reversal of timing differences	(11,378)	(16,401)
Total deferred tax	<u>(11,378)</u>	<u>(16,401)</u>
Taxation on loss on ordinary activities	<u>(1,326,688)</u>	<u>(1,068,919)</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 20%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	(1,468,570)	(2,974,186)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 20%)	(279,028)	(594,837)
Effects of:		
Fixed asset differences	2,401	2,527
Expenses not deductible for tax purposes	1,380	-
Non-taxable income	(24,729)	-
Other permanent differences	(2,421)	(11,183)
Changes to tax rates - deferred tax	91,158	173,092
Video game development tax profit adjustment	(1,563,242)	(1,237,527)
Deferred tax not recognised	763,468	809,513
Difference between the rate of corporation tax and the rate of relief under the video game tax credit	(315,675)	(210,504)
Total tax charge for the year	(1,326,688)	(1,068,919)

Factors that may affect future tax charges

Reductions in the UK Corporation tax rate from 20% to 17% (19% effective from 1 April 2017 and 17% effective from 1 April 2020) have been substantively enacted. This will impact the company's future tax charge accordingly. The deferred tax asset at 31 March 2018 has been calculated based on the rates substantively enacted at the date of the statement of financial position.

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Notes to the Financial Statements For the Year Ended 31 March 2018

12. Intangible assets

	Software Licenses £	Goodwill £	Total £
Cost			
At 1 April 2017 (as previously stated)	-	399,985	399,985
Prior Year Adjustment	1,095,093	-	1,095,093
	<u>1,095,093</u>	<u>399,985</u>	<u>1,495,078</u>
At 1 April 2017 (as restated)	1,095,093	399,985	1,495,078
	<u>1,095,093</u>	<u>399,985</u>	<u>1,495,078</u>
At 31 March 2018	1,095,093	399,985	1,495,078
	<u>1,095,093</u>	<u>399,985</u>	<u>1,495,078</u>
Amortisation			
At 1 April 2017 (as previously stated)	-	399,985	399,985
Prior Year Adjustment	247,930	-	247,930
	<u>247,930</u>	<u>399,985</u>	<u>647,915</u>
At 1 April 2017 (as restated)	247,930	399,985	647,915
Charge for the year	107,217	-	107,217
Impairment charge	739,946	-	739,946
	<u>1,095,093</u>	<u>399,985</u>	<u>1,495,078</u>
At 31 March 2018	1,095,093	399,985	1,495,078
	<u>1,095,093</u>	<u>399,985</u>	<u>1,495,078</u>
Net book value			
At 31 March 2018	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2017 (as restated)	847,163	-	847,163
	<u>847,163</u>	<u>-</u>	<u>847,163</u>

Please see note 4 for further details relating to the prior period adjustment. The software licence has been treated as impaired as a result of it not generating future income post year-end.

The corresponding liability of £714,286 has been waived as a result.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

13. Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Office equipment £	Total £
Cost				
At 1 April 2017	88,462	98,463	472,413	659,338
Additions	-	6,319	109,989	116,308
Disposals	-	(2,256)	(71,225)	(73,481)
At 31 March 2018	88,462	102,526	511,177	702,165
Depreciation				
At 1 April 2017	47,610	58,081	343,201	448,892
Charge for the year	12,638	21,129	97,222	130,989
Disposals	-	(2,256)	(68,807)	(71,063)
At 31 March 2018	60,248	76,954	371,616	508,818
Net book value				
At 31 March 2018	28,214	25,572	139,561	193,347
At 31 March 2017	40,852	40,382	129,212	210,446

14. Fixed asset investments

	Investment in subsidiary company £
Cost	
At 1 April 2017 and 31 March 2018	1

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Notes to the Financial Statements For the Year Ended 31 March 2018

14. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding	Principal activity
Dovetail Games Limited	Ordinary	100 %	Dormant

The address of the registered office is Units 157/158 Stirling Enterprise Park, John Player Building, Stirling, FK7 7RP.

The aggregate of the share capital and reserves as at 31 March 2018 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves £
Dovetail Games Limited	1

15. Debtors

	2018 £	2017 £
Trade debtors	1,071,294	997,640
Other debtors	1,390,455	1,118,878
Prepayments and accrued income	345,566	203,799
	<u>2,807,315</u>	<u>2,320,317</u>

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debtors was £Nil (2017 - £1,065).

Debtors due in more than one year have been restated as explained in note 4.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

16. Creditors: Amounts falling due within one year

	2018 £	As restated 2017 £
Bank loans	170,833	160,000
Trade creditors	279,378	186,593
Other taxation and social security	138,485	124,813
Other creditors	5,765	524,475
Accruals and deferred income	897,013	1,426,280
	<u>1,491,474</u>	<u>2,422,161</u>

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

	2018 £	2017 £
Bank loans	297,500	457,500
Other loan	3,959,773	3,658,218
Other creditors	-	800,000
	<u>4,257,273</u>	<u>4,915,718</u>

Included within creditors: amounts falling due after more than one year is an amount of £3,959,773 (2017 - £3,658,218) in respect of liabilities payable or repayable in installments which fall due for payment after more than five years from the reporting date.

Total bank loans are secured by the company to the amount of £468,333 (2017 - £617,500).

18. Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>1,927,872</u>	<u>3,186,651</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(5,604,496)</u>	<u>(7,208,591)</u>

Financial assets that are debt instruments measured at amortised cost comprise cash at bank and in hand, trade debtors and certain other debtors.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, other creditors, other loans and accruals.

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Notes to the Financial Statements For the Year Ended 31 March 2018

19. Deferred taxation

	2018 £
At beginning of year	37,978
Charged to profit or loss	(11,378)
At end of year	26,600

The provision for deferred taxation is made up as follows:

	2018 £	2017 £
Accelerated Capital Allowances	26,600	37,978

20. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
813,453 (2017 - 810,393) Ordinary 1 shares of £0.01 each each	8,134	8,103
1 A1 Ordinary share of £0.01	-	-
11,250 A2 Ordinary shares of £0.01 each	113	113
1,700 E Ordinary shares of £1 each	1,700	1,700
	9,947	9,916

On 21 June 2017 the Company issued an additional 3,000 Ordinary 1 shares with a nominal value of £0.01 per share for a total consideration of £5,500.

On 6 December 2017, the company issued an additional 60 Ordinary 1 share with a nominal value of £0.01 per share for a total consideration of £1,200.

A warrant is in place representing subscription rights for 383,377 A1 Ordinary shares of £0.01 each at an amount of £5.22 per share.

Rights attached to shares:

Ordinary 1, A1 Ordinary, and A2 Ordinary shares rank pari passu in terms of dividend and voting rights. Upon winding up or liquidation of the company, A1 Ordinary and A2 Ordinary shares shall receive a priority balance of surplus assets.

E Ordinary shares guarantee the holder no less than 5% of voting rights in any general meeting or for the purposes of any written resolution. No rights to receive dividends or other income distributions are held. Upon winding up or liquidation of the company, E Ordinary shares rank behind other share classes and may receive an amount equal to the issue price of the share or pro rata to the number of E Ordinary shares in issue.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

21. Reserves

The company has the following reserves:

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

The profit and loss account represents cumulative profits and losses, net of dividends paid and other adjustments.

22. Share based payments

As at 31 March 2018, there were 293,488 share options issued to 72 members of staff under the Railsimulator.com Limited EMI Share Option Scheme which was adopted by the company on 28 January 2010. All of the 293,488 share options issued qualified under the EMI scheme.

At 31 March 2018, the number of vested options was 271,906 (2017: 250,150) and the number of unvested options was 21,582 (2017: 50,478). Of the unvested options, 12,457 (2017: 27,733) will vest within one year.

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the beginning of the year	668	300,628	459	214,153
Granted during the year	2,000	750	1,721	112,738
Forfeited during the year	1,670	(4,730)	1,675	(13,013)
Exercised during the year	219	(3,060)	100	(13,250)
Cancelled during the year	2,000	(100)		-
Outstanding at the end of the year	664	293,488	668	300,628

As at 31 March 2018 the company had issued 4,575 share options to 1 member of staff under the Railsimulator.com Limited Management Unapproved Option Scheme which was adopted by the company on 20 June 2017. As at 31 March 2018 all 4,575 share options had vested.

The company recognised total expenses of £25,535 (2017: £Nil) related to equity settled share based payments transactions in the year. Share options have been valued using the Black Scholes model.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2018

23. Pension commitments

The company operated a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £52,471 (2017 - £40,822). Contributions totalling £Nil (2017 - £Nil) were payable to the fund at the reporting date and are included in creditors.

24. Commitments under operating leases

At 31 March 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	124,308	193,081
Later than 1 year and not later than 5 years	3,168	35,751
	<u>127,476</u>	<u>228,832</u>

25. Related party transactions

During the year interest payable to a shareholder and an entity which a director is also a member of was accrued to an amount of £301,555 (2017 - £158,218). Shown within other loans due over more than one year is an amount owed to this shareholder of £3,959,773 (2017 - £3,658,218). During the year, £31,167 (2017 - £16,884) was paid to this entity in respect of other services.

During the year, the company paid £33,000 (2017 - £33,000) for services to an entity with a common shareholder and director. At year end, £Nil (2017 - £Nil) was owed to the entity.

26. Ultimate controlling party

No one individual has control over the company.