

**Registered No: 2892559**

**Frontier Developments Limited**  
**IFRS Report and Accounts**  
**31 May 2012**

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# Frontier Developments Limited

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# **Frontier Developments Limited**

## **Corporate Directory**

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**Directors:**

Mr D J Braben  
Mr D J Walsh  
Mr J F Watts  
Mr D R Gammon

**Secretary:** Mr N R Armstrong

**Registered Office:** 306 Science Park  
Milton Road  
Cambridge  
CB4 0WG

**Company number:** 2892559

**Auditor:** Grant Thornton UK LLP  
Chartered Accountants  
Registered Auditor  
101 Cambridge Science Park  
Milton Road  
Cambridge  
CB4 0FY

# **Frontier Developments Limited**

## **Report of the Directors for the year ended 31 May 2012**

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The Directors present their annual report on the affairs of the Company together with the financial statements for the year to 31 May 2012. The financial statements are prepared under International Financial Reporting Standards (EU-adopted IFRS) for the first time and therefore include full details and explanations of the impact of the transition to IFRS. The Company has elected for the date of transition to IFRS to be 1 June 2009 and therefore full comparative information is provided for the two years being 2011 and 2010, together with the transition date.

### **PRINCIPAL ACTIVITIES**

The principal activity of the company in the year under review was that of design and production of computer software, particularly video games within the interactive entertainment sector.

### **REVIEW OF BUSINESS**

We released our first self-published game on the iOS platform, *LostWinds*, in December 2011 and followed up with a second *LostWinds* game in May 2012. We also started development of a rollercoaster game, *Coaster Crazy*, which was subsequently released in the third calendar quarter of 2012.

During the financial year we released Kinect Disneyland adventures published by Microsoft Studios and two further projects in the Kinectimals franchise 'Now with Bears' and a game for smartphones and tablets. We also provided some assistance on the Star Wars game released by Microsoft Studios. We continue to work with Microsoft Studios on a number of projects.

We continue to develop and invest in novel enabling technology and tools for our FGDK multi-threaded game development platform (known publically as 'COBRA'), as well as supporting selected third party technology and/or tools that we believe provide a cost-effective value-add for our developments. As part of our move to international financial reporting standards we now capitalise these development costs as intangible assets where recognition criteria are met.

### **Financial Performance**

Revenue for the Company has grown 47% over the past 2 years: £14.2m (2011: £11.2m, 2010: £9.6m).

The implementation of IFRS and in particular the recognition of development costs previously written off as revenue items as Intangible assets, has changed the reported net result over the past 3 years. The company believes that the EBITDA measure is more reflective of the underlying business position.

The Company's EBITDA including adjustments for exceptional items (see note 5) for the past year was £3.2m (2011: £2.1m, 2010: £0.8m).

The Company has returned to profitability this year after absorbing an impairment of work in progress of £2.9m in 2011. Profit/ (loss) after tax was £1.4m ((2011: Loss (£1.4m), 2010: Loss (£0.4m)).

The Company remained debt free.

### **Strategy**

Frontier's strategy continues to be to develop innovative, high quality games on popular gaming platforms, both via publishing partners and self-published.

The Directors have focused on delivering games to time, on budget and of high quality. The relevant Key Performance Indicators have been Revenue, Profitability and External Quality scores such as Metacritic.

## **Frontier Developments Limited**

### **Report of the Directors for the year ended 31 May 2012 (continued)**

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#### **Operating Costs**

There are two material unusual items within the prior periods. In 2011 the Company took an impairment charge against work in progress of £2.9m against a project that was suspended due to lack of funding for completion, 'The Outsider'. In 2010 the Company took a bad debt provision £1.9m for amounts owed at the point of contract cancellation of 'The Outsider'. In 2010 the bad debt provision of £1.9m was offset by an increase in long term work in progress value as the Company valued inventory at cost less forecast net revenue. At 31 May 2010 the Company was in discussion with a number of publishers to take the project to completion.

#### **FUTURE OUTLOOK**

We begin the financial year 2013 with a record contracted value within the Publication part of our business and with plans for releasing at least one further self published title.

#### **GOING CONCERN**

The Company's forecasts for the intended development activity lead to a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company faces competitive and strategic risks that are inherent in a rapidly growing emerging market. The Executive management of the Company review future strategy and risks to the business regularly. The Company is strengthening its risk management process to ensure that where possible, processes are in place to monitor and mitigate the identified risks.

Key business risks affecting the Company are set out below.

##### ***Financial***

The Company recognises that it is currently dependent on a small number of sources of revenue, and this has potential to cause financial stress should these relationships break down. The Company is also confident that if this were to happen it could undertake work for other customers.

##### ***Technology***

The Company operates in a fast moving industry where monetization strategies for video games are evolving rapidly. The ability to both forecast and monetise revenue streams is subject to a risk of uncertainty that may not cover development costs. The Board believes that its design of games, ability to execute on high end technology platforms and the flexibility demonstrated by the diverse range of video games we have successfully developed in the past mitigates some of this risk.

##### ***Growth management***

The Company's future success will depend on its ability to manage anticipated expansion. This may include acquisitions, an area in which the Company has yet to be active. Such expansion is expected to place demands on management and support functions. If the Company is unable to manage its expansion effectively, its business and financial results could suffer. In order to mitigate this risk, the Company is investing in suitable training for key staff. The Company is also in the process of strengthening its Non Executive Director base and appointing key advisors with experience in the sector to ensure these risks are managed objectively.

## Frontier Developments Limited

### Report of the Directors for the year ended 31 May 2012 (continued)

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#### *Attracting and retaining staff*

The Company acknowledges that it is in a sector where world class staff are in high demand. The Company is undertaking a three year programme of improving incentives and leadership skills which is intended to further enhance its attractiveness as an employer.

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Historically the size and ownership of the Company has not required formal and documented financial risk management. In 2010 the Company created a separate finance function and as it has grown, the Company has adopted suitable policies and controls to manage financial risk and align financial measures with the strategic objectives it is committed to.

#### *Currency risk*

Currency risk is managed by ensuring, where possible, that financial revenues and operating costs are denominated in £ sterling or where sub contract costs have been recharged, they have been recharged in the same currency.

#### *Liquidity risk*

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they fall due. The Company seeks to manage this risk by ensuring sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably.

The Company's policy throughout the year has been to place surplus funds on short-term treasury deposits based on its detailed cashflow forecasting. The Company prudently manages its liquidity needs by carefully monitoring forecast cash inflows and outflows both in the short and medium term. Net cash requirements are compared to balances in order to determine headroom or any shortfalls. This analysis shows that available cash is expected to be sufficient to continue to operate as it is currently. In the short to medium term the Company is considering its resource requirements to support an accelerated growth plan for the business which would require it to raise funds.

#### **DIVIDENDS**

The Directors do not recommend the payment of a dividend for the year (2011 £nil, 2010 £nil).

#### **SHARE ISSUES**

Details of the shares issued during the year are detailed in Note 16 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

#### **DIRECTORS**

The Directors who held office at 31 May 2012 and their shareholdings were as follows

Name	2012	2011
David Braben	8,831,460	9,000,000
David Walsh*	500,000	500,000
Jonathan Roach (Resigned 3 September 2012)	324,000	324,000
Jonathan Watts (Appointed 15 February 2012)	16,000	-
David Gammon (Appointed 15 February 2012)	112,360	-
Total	9,840,000	9,824,000

\*Including direct family holdings

# **Frontier Developments Limited**

## **Report of the Directors for the year ended 31 May 2012 (continued)**

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### **Directors' remuneration and share options**

Details of Directors' remuneration and share options are provided in notes 17 and 18 of the financial statements

### **DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and of the profit or loss of the Company for that year. 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,
- state whether the applicable IFRSs have been followed, subject to any material departures disclosed and explained in the Company financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- The Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **DIRECTORS' INDEMNITY ARRANGEMENTS**

During the year the Company purchased Directors' & Officers' liability insurance in respect of itself and its Directors.

### **INTELLECTUAL PROPERTY & RESEARCH AND DEVELOPMENT**

The Company actively protects its Intellectual Property via Trademark registrations. Whilst the Directors consider these to be of significant value, the costs associated with registrations are expensed.

## **Frontier Developments Limited**

### **Report of the Directors for the year ended 31 May 2012 (continued)**

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The Company invests heavily in Research and Development through the COBRA Engine and associated Development Tools. Costs which meet the criteria for capitalisation are included in intangible assets (see Note 7 of the financial statements)

#### **EMPLOYEE INVOLVEMENT**

The Company seeks to encourage and promote an agile, open, fair, meritocratic culture of engagement, achievement and fun

The Company is committed to the principle of equal opportunities in employment. Its aim is to ensure that no job applicant or employee receives less favourable treatment or is placed at a disadvantage by requirements or conditions which cannot be shown to be justifiable and thereby promote equality of opportunity for employment within the Company on grounds such as sex, disability, marital status, religion, colour, race, nationality, ethnic or national grounds, age or sexual orientation.

The Company's policies and procedures are created and administered in such a way that they do not tolerate or foster such discrimination.

The Company has an Employee Consultation group that meets regularly with senior management.

The Company encourages employee involvement in the Company's performance by using a contractual bonus scheme for all non-Director level staff. In addition, it seeks to issue share options at relevant times.

#### **EMPLOYMENT POLICIES**

The Company, having only one country of operation during the year ended 31 May 2012, is committed to following UK employment law.

#### **HEALTH & SAFETY AND ENVIRONMENT**

The aim of the Directors is to provide healthy, safe and congenial working conditions, equipment and systems of work for all employees.

The Directors further intend to provide sufficient information, training and supervision to enable employees to do their work safely, effectively and without risk to themselves or to others.

We acknowledge that we are responsible for the safety of visitors, both professional and social, who enter the premises.

Frontier Developments Limited recognises its duty to comply and operate within the requirements of Statutory Environmental Legislation and is committed to minimising the environmental impacts of its business operations. The directors of the company will support this policy with this commitment in mind.

#### **SUBSTANTIAL SHAREHOLDERS**

The Company has one shareholder excluding Directors who owns more than 10% of the company, being Chris Sawyer, who owns 10.4% of the ordinary share capital.

#### **PAYMENT POLICY AND PRACTICE**

The Company's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier. The Company's normal policy is to pay supplier invoices in accordance with those terms and conditions provided there are no disputes. At 31 May 2012, the Company had an average of 3 days' purchases outstanding (2011: 53 days, 2010: 15 days).



## **Frontier Developments Limited**

### **Report of the Directors for the year ended 31 May 2012 (continued)**

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#### **DONATIONS AND COMMUNITY SUPPORT**

The Group made charitable donations during the year of £500 (2011 and 2010 £nil) There were no donations to political parties Employees of the Company participate actively in the community of entrepreneurial businesses clustered around Cambridge

Senior employees of the Company have been involved closely with the Raspberry Pi foundation

#### **POST BALANCE SHEET EVENT**

On 27 July 2012 the Company incorporated a subsidiary Frontier Developments Inc in Halifax, Nova Scotia and has established a small development team in this entity

#### **AUDITOR**

Grant Thornton UK LLP were appointed as auditor in the year A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting In accordance with normal practice, the Directors will be authorised to determine the Auditor's remuneration

Approved by the Board of Directors

And signed on behalf of the Board



N R Armstrong  
Company Secretary

28 November 2012

**Independent Auditors Report to the Members of Frontier Developments Limited**

We have audited the financial statements of Frontier Developments Limited for the year ended 31 May 2012 which comprise the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

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

**Respective Responsibilities of Directors and Auditor**

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

**Scope of the Audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**Opinion on 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 May 2012 and of the Company's profit for the year then ended,
- The Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, and
- The financial statements 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 Directors' Report for the financial year for which the Company financial statements are prepared is consistent with the Company financial statements.

**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:

- 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.

*Grant Thornton UK LLP*

Alison Seekings  
Senior Statutory Auditor  
for and on behalf of  
Grant Thornton UK LLP  
Statutory Auditor  
Chartered Accountants  
Cambridge

29 November 2012

**Income Statement**

	Notes	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
Revenue	5	14,157	11,196	9,604
Cost of sales		(11,259)	(12,073)	(6,203)
<b>Gross profit/ (loss)</b>		<b>2,898</b>	<b>(877)</b>	<b>3,401</b>
Administrative expenses		(1,508)	(1,252)	(3,598)
<b>Operating profit/ (loss)</b>		<b>1,390</b>	<b>(2,129)</b>	<b>(197)</b>
Finance income	21	10	7	16
<b>Profit/ (loss) before tax</b>	6	<b>1,400</b>	<b>(2,122)</b>	<b>(181)</b>
Income tax	22	(2)	700	(201)
<b>Profit / (loss) for the year</b>		<b>1,398</b>	<b>(1,422)</b>	<b>(382)</b>

All the activities of the company are classified as continuing

**Statement of Comprehensive Income**

	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
Total comprehensive income / (loss) for the year attributable to the owners of the company	1,398	(1,422)	(382)

The accompanying accounting policies and notes form part of these financial statements

# Frontier Developments Limited

## Statement of financial position

	Notes	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
<b>Non-current assets</b>					
Intangible assets	7	3,331	3,521	2,854	2,547
Property, plant and equipment	8	185	379	597	449
Available for sale financial assets	9	-	-	25	25
<b>Total non-current assets</b>		<b>3,516</b>	<b>3,900</b>	<b>3,476</b>	<b>3,021</b>
<b>Current assets</b>					
Inventories	13	75	259	2,329	47
Trade and other receivables	14	2,505	2,132	567	1,359
Current tax assets		-	12	-	-
Cash and cash equivalents	15	1,686	1,064	2,010	5,724
<b>Current assets</b>		<b>4,266</b>	<b>3,467</b>	<b>4,906</b>	<b>7,130</b>
<b>Total assets</b>		<b>7,782</b>	<b>7,367</b>	<b>8,382</b>	<b>10,151</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	16	12	12	12	12
Share premium account		1,794	1,794	1,775	1,746
Option reserve		263	364	442	448
Retained earnings		4,694	3,195	4,539	4,915
<b>Total equity</b>		<b>6,763</b>	<b>5,365</b>	<b>6,768</b>	<b>7,121</b>
<b>Liabilities</b>					
<b>Current</b>					
Trade and other payables	19	867	1,889	834	2,531
Current tax liabilities		2	-	12	-
		<b>869</b>	<b>1,889</b>	<b>846</b>	<b>2,531</b>
<b>Non-current</b>					
Provisions	20	150	113	80	-
Deferred tax	12	-	-	688	499
		<b>150</b>	<b>113</b>	<b>768</b>	<b>499</b>
<b>Total liabilities</b>		<b>1,019</b>	<b>2,002</b>	<b>1,614</b>	<b>3,030</b>
<b>Total equity and liabilities</b>		<b>7,782</b>	<b>7,367</b>	<b>8,382</b>	<b>10,151</b>

These financial statements were approved by the Directors on 28 November 2012 and signed on their behalf by



Director **DAVID J. BLABIEN**

The accompanying accounting policies and notes form part of these financial statements

## Statement of Cash Flows

	Notes	2012 £'000	2011 £'000	2010 £'000
<b>Operating activities</b>				
Profit/(loss) after tax		1,398	(1,422)	(382)
Adjustments	23	1,829	620	1,212
Net changes in working capital	23	(1,174)	1,593	(3,144)
Taxes received/(paid)		12	(12)	-
<b>Cash flow from operating activities</b>		<b>2,065</b>	<b>779</b>	<b>(2,314)</b>
<b>Investing Activities</b>				
Purchase of property, plant and equipment		(28)	(19)	(283)
Purchase of intangible assets		(1,433)	(1,795)	(1,159)
Proceeds from disposal of other long-term financial assets		-	65	-
Interest received		10	7	16
<b>Cash flow from investing activities</b>		<b>(1,451)</b>	<b>(1,742)</b>	<b>(1,426)</b>
<b>Financing activities</b>				
Proceeds from issue of share capital		-	19	29
<b>Cash flow from financing activities</b>		<b>-</b>	<b>19</b>	<b>29</b>
<b>Net change in cash and cash equivalents from continuing operations</b>		<b>614</b>	<b>(944)</b>	<b>(3,711)</b>
Cash and cash equivalents at beginning of year		1,064	2,010	5,724
Exchange differences on cash and cash equivalents		8	(2)	(3)
<b>Cash and cash equivalents at end of year</b>		<b>1,686</b>	<b>1,064</b>	<b>2,010</b>

The accompanying accounting policies and notes form part of these financial statements

# Frontier Developments Limited

## Statement of Changes In Equity

	Share capital	Share premium account	Option Reserve	Profit and loss account	Total Equity
	£'000	£'000	£'000	£'000	£'000
<b>At 1 June 2009</b>	12	1,746	448	4,915	7,121
Share based payment transfer	-	-	(6)	6	-
Issue of Share capital	-	29	-	-	29
<b>Transactions with owners</b>	12	1,775	442	4,921	7,150
Loss for the year	-	-	-	(382)	(382)
<b>Total comprehensive income for the year</b>	-	-	-	(382)	(382)
<b>At 31 May 2010</b>	12	1,775	442	4,539	6,768
Share based payment transfer	-	-	(78)	78	-
Issue of Share capital	-	19	-	-	19
<b>Transactions with owners</b>	12	1,794	364	4,617	6,787
Loss for the year	-	-	-	(1,422)	(1,422)
<b>Total comprehensive income for the year</b>	-	-	-	(1,422)	(1,422)
<b>At 31 May 2011</b>	12	1,794	364	3,195	5,365
Share based payment transfer	-	-	(101)	101	-
<b>Transactions with owners</b>	12	1,794	263	3,296	5,365
Profit for the year	-	-	-	1,398	1,398
<b>Total comprehensive income for the year</b>	-	-	-	1,398	1,398
<b>At 31 May 2012</b>	12	1,794	263	4,694	6,763

The accompanying accounting policies and notes form part of these financial statements

# Frontier Developments Limited

## Notes to the financial statements

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### 1 Corporate Information

Frontier Developments Limited ("the Company") develops video games for the interactive entertainment sector. The Company is a private limited company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 306 Science Park, Milton Road, Cambridge CB4 0WG. The Company's operations are based in the UK.

### 2 Basis of Preparation and Statement of Compliance

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *Basis of preparation*

The financial statements of Frontier Developments Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. These are the Company's first financial statements prepared in accordance with IFRS (see note 27 for explanation of the transition to IFRS).

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Sterling, the presentational currency for the company and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The preparation of these financial statements requires the Directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

#### *Going concern basis*

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Company therefore continues to adopt the going concern basis in preparing its financial statements. In the short to medium term, the Company is considering its resource requirements to support an accelerated growth plan for the business which would require it to raise funds.

### 3 Principal Accounting Policies

#### a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to the income statement so as to write off the cost less estimated residual values over their expected useful lives on a straight-line basis over the following periods:

Fixtures & Fittings	5 years
Computer Equipment	2½ years
Leasehold Improvements	Length of the lease

Residual values and useful economic lives are assessed annually. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses.

As a result of the review of useful economic lives an additional depreciation charge of £85,720 was made in the year (2011: £76,501, 2010: £25,434).

## Frontier Developments Limited

### Notes to the financial statements (continued)

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#### b) Intangible assets

Intangible assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life. They comprise three elements:

- Development Tools
- Software (self published games)
- Software (third party)

An internally-generated intangible asset arising from the Company's development activities is recognised only if all of the following conditions are met:

- Completion of the intangible asset is technically feasible so that it will be available for use in developing games (tools & development software) or sale (self published games)
- The Company intends to complete the intangible asset and has the ability to use or sell it as indicated above, thus generating probable future economic benefits
- The expenditure attributable to the intangible asset during its development, mainly salary costs, can be measured reliably

Internally-generated intangible assets, consisting of direct labour costs, are amortised on a straight-line basis over their useful economic lives when the assets are available for use. Amortisation is shown within cost of sales in the income statement. The estimated useful lives of current development projects are between two and five years. Until completion the assets are subject to impairment testing. Amortisation commences upon completion of the asset, and is shown within cost of sales in the income statement.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### c) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

#### d) Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its property, plant and equipment and individual intangible assets for any indication that these assets have suffered an impairment loss. Until the internally generated intangible assets are available for use when amortisation can be charged, the assets are subject to an annual impairment test. Assets already being amortised are also reviewed for any indication that the asset has suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Fair value is measured for self published games by discounting future cashflows. For all other assets a review of the expected useful economic life in use is undertaken and compared to that implied in the amortisation rate.

#### e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the total accumulated project cost less the amount expensed as cost of sales, being an allocation to match sales revenue, subject to an economic benefit test for long term contracts. Economic benefit tests are measured by reference to contractual terms such as approval of a milestone by the Customer. Net realisable value is based on estimated selling value less additional cost to completion and distribution. Provisions are made for obsolete, or defective elements (which do not meet quality criteria and have to be replaced in full) of cost where appropriate and are recognised as an expense in the period in which the write-down or loss occurs.



## Frontier Developments Limited

### Notes to the financial statements (continued)

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#### f) Financial assets

Financial assets comprise assets available for sale, trade receivables, other receivables and cash and cash equivalents

Available for sale financial assets are non derivative financial assets that are carried at cost where a fair value cannot be measured reliably (unquoted equity investments)

Trade and other receivables are recognised initially at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

#### g) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand.

#### h) Financial liabilities

The Company's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### i) Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity. Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability. Financial liabilities are presented under liabilities on the statement of financial position.

#### j) Income taxes

Income tax expense comprises the current and deferred tax. Income tax is recognised in the income statement.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period, that are unpaid at the statement of financial position date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where it relates to items outside profit or loss. Tax relating to items in other comprehensive income is recognised in other comprehensive income and tax relating to items directly in equity is recognised directly in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets. However, deferred tax is not provided on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

## Frontier Developments Limited

### Notes to the financial statements (continued)

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Deferred tax liabilities are always provided in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Deferred tax is recognised as a component of tax expense in the income statement. Deferred tax relating to items directly in equity is recognised directly in equity.

#### k) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement net of any incentives received from the lessor on a straight-line basis over the period of the lease.

#### l) Revenue recognition

Revenue represents amounts derived from the design, production and sale of computer games software which fall within the Company's ordinary activities, exclusive of value added tax and other similar sales taxes. Revenue is measured by reference to the fair value of consideration received or receivable.

Revenue includes income from the design and production of computer software contracted for customers, royalties from published games, and income from the release of self published online games.

Revenues on project contracts are mapped against the expected profile of costs. In most circumstances these are closely correlated.

Where there is close correlation between the revenue and cost profile, revenues on projects contracts are normally recognised at the time that milestones are delivered, except for deliveries under arrangements involving significant acceptance requirements. Under such arrangements, revenue is recognised when the Group has substantially met all its performance obligations.

Where there is less correlation between the revenue and cost profile, revenue from customer specific contracts, are recognised on the stage of completion of each assignment (milestone) at the period end date compared to the total estimated service based on the estimate of labour and other costs to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

Additionally project contracts may contain provision for the pass through of sub contract costs, these are recharged on a matching basis in the same period as the underlying cost.

Revenue earned from royalties under distribution agreements are recognised in the period that the sales to the end customer are made, estimated on an accruals basis as Royalty reports are generally per calendar quarter.

Revenue from self published titles is recognised on download of the game or part thereof (micro transaction) from the distribution platform.

#### m) Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability.

The Company does not generally operate any pension scheme for its employees, beyond providing access to an 'employee contribution only' Stakeholder scheme. There was however a small defined contribution pension contribution for an employee, which finished in the period. Payments to defined contribution retirement benefit schemes are charged as an expense in the period to which they relate.

# Frontier Developments Limited

## Notes to the financial statements (continued)

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### n) Share-based payment transactions

Share options are periodically granted to staff. Share Options are measured at fair value at the date of issue and recognised over the vesting period of the option. Fair value is measured using the Black Scholes Option Pricing Model. The expected life used in the model is the expiry date of the options. Upon exercise of share options, the proceeds received up to the nominal value of the shares issued are allocated to share capital with any excess, net of any directly attributable transaction costs, being recorded as share premium.

### o) Foreign currencies

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month end rate in order to approximate to actual rate for the relevant transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date.

Foreign exchange differences are charged to the income statement in the period in which they arise.

### p) Segment reporting

The company identifies only one operating segment as the business is managed as a whole. For management purposes the company reviews the financial information which is consistent with that reported in its financial statements. In addition assets are not directly attributable to any separable activity.

### q) Share capital and reserves

Share capital represents the nominal value of the shares that have been issued.

Share premium - Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Option reserve - This reserve represents equity - settled share based employee remuneration until such share options are exercised.

Retained earnings - Retained earnings include all current and prior period retained earnings.

### r) Provisions

Provisions for dilapidations are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

### s) Standards and interpretations not yet applied

The following new Standard, which is yet to become mandatory, has not been applied in the financial statements:

- IFRS 13 Fair Value Measurement (effective 1 January 2013)

Based on the company's current business model and accounting policies, management does not expect material impacts on the financial statements when the Standard becomes effective. The Company does not intend to apply this pronouncement early.

# Frontier Developments Limited

## Notes to the financial statements (continued)

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### 4 Significant Accounting Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

#### a) Intangible assets

The company invests heavily in research and development. The identification of development costs which meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of software tools within a project that can be utilised generically are separately identified. Judgements are based on the information available at each balance sheet date. Economic success of any development is uncertain at the time of recognition as it may be subject to future technical problems and therefore a review for indicators of impairment is completed by product at each year end date. The net book value of the intangible fixed assets are £3,331,253 (2011 £3,521,219, 2010 £2,853,861)

Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For example a decision to suspend a self published title under development.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cash flows.

Games developed to be self published are reviewed for impairment based on the status at the end of each financial year. This is necessary as the economic success of any unreleased self published game is uncertain.

#### b) Trade receivables and recovery of work in progress

Trade receivables are stated net of an impairment for bad and doubtful debts, based on the Company's best estimate of the likelihood of recovery on a specific basis. Recovery of work in progress is dependent on the successful completion of projects. Judgement is therefore needed to be applied for projects which are in progress regarding the ability of the company to complete and deliver the project in accordance with contractual terms.

#### c) Deferred tax

A deferred tax asset is recognised where the Company considers it probable that future tax profits will be available against which the tax credit will be utilised in the future. This specifically applies to tax losses and to outstanding vested share options at the statement of financial position date. In estimating the amount of the deferred tax asset that should be recognised, the directors make judgements based on current budgets and forecasts about the amount of future taxable profits and the timings of when these will be realised. A deferred tax asset is currently being recognised due to the predictability of future taxable trading profits.

#### d) Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts. In this process management takes into account milestones, actual work performed and further obligations and costs expected to complete the work. Management monitor the progress and have regular dialogue with customers to confirm the project status.

### 5 Segment Information

The company identifies reportable operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the board. The chief operating decision maker is the CEO.

Management information is reported as a single operating segment being the design and production of computer software irrespective of platform or route to market. Resources are managed on the basis of the company as a whole. Management information has historically been reported under UK GAAP.

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 5 Segment Information (continued)

The Company's revenues from external customers are divided into the following geographical areas

	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
United Kingdom (country of domicile)	29	2	4,032
United States of America	13,905	11,112	5,377
Rest of the World	223	82	195
	<b>14,157</b>	<b>11,196</b>	<b>9,604</b>

All non-current assets are based in the UK

In 2012 and 2011 periods there was one customer whose revenue accounted for more than 10% of total revenue. The customer is based in United States of America and totals 95% (2011 97 %) of the annual revenue.

In the 2010 period there were two customers whose revenue accounted for more than 10% of total revenue. One customer is based in the United Kingdom and totalled 28% and the other in the United States of America totalled 55% of annual revenue.

EBITDA after material exceptional items is a key performance indicator for the company and is calculated as follows

	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
Operating profit	1,390	(2,129)	(197)
Depreciation	185	235	171
Amortisation	1,623	1,128	775
Impairment (capitalisation) of work in progress	-	2,896	(1,843)
Impairment of intangibles	-	-	78
Bad debt provision	-	-	1,843
EBITDA adjusted	<b>3,198</b>	<b>2,130</b>	<b>827</b>

### 6 Profit/ (Loss) before tax

This is stated after charging/(crediting)

	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
Amortisation and impairment on intangibles	1,623	1,128	775
Depreciation of owned property, plant and equipment	185	235	171
Impairment on intangibles	-	-	78
Impairment of long term work in progress	-	2,896	-
Loss on disposal of fixed assets	1	2	-
Profit on disposal of available for sale assets	-	(40)	-
Research and development costs expensed	20	30	39
Auditor remuneration			
Audit services - audit of these financial statements	11	5	4
Non audit services - tax services	3	1	1
- other services	10	-	-
Operating leases – land and buildings	415	415	356
Foreign Exchange (gain)/ loss	(8)	2	3
Bad Debt (recovery)/ provision	-	(4)	1,843

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 7 Intangible assets

The Company's Intangible assets comprise capitalised development tools and acquired software licences and self published software games. The carrying amounts for the reporting periods under review can be analysed as follows

	Development tools & licences £'000	Self published software £'000	Third party software £'000	Total £'000
<i>Cost</i>				
At 1 June 2009	3,233	-	494	3,727
Additions	1,077	-	83	1,160
Disposals	(224)	-	-	(224)
At 31 May 2010	4,086	-	577	4,663
Additions	1,640	85	70	1,795
Disposals	(545)	-	-	(545)
At 31 May 2011	5,181	85	647	5,913
Additions	574	769	90	1,433
Disposals	(732)	-	-	(732)
At 31 May 2012	5,023	854	737	6,614
<i>Amortisation and impairment</i>				
At 1 June 2009	952	-	228	1,180
Charge for the year	701	-	74	775
Disposals	(224)	-	-	(224)
Impairment	78	-	-	78
At 31 May 2010	1,507	-	302	1,809
Charge for the year	1,017	5	106	1,128
Disposals	(545)	-	-	(545)
At 31 May 2011	1,979	5	408	2,392
Charge for the year	1,207	287	129	1,623
Disposals	(732)	-	-	(732)
At 31 May 2012	2,454	292	537	3,283
Net Book Value at 31 May 2012	2,569	562	200	3,331
Net Book Value at 31 May 2011	3,202	80	239	3,521
Net Book Value at 31 May 2010	2,579	-	275	2,854
Net Book Value at 1 June 2009	2,281	-	266	2,547

All amortisation charges, impairments (or reversals if any) are included within Cost of Sales

An impairment loss of £77,793 was recognised in 2010 for certain development tools used in the development of a game that was suspended during the year. The recoverable amount of the asset is its value-in-use of £nil, determined based on management's expectation that the techniques used are becoming obsolete as technology advances. No impairment loss was recognised for 2012 or 2011.

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 8 Property, plant and equipment

	Fixtures & Fittings £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
<i>Cost</i>				
At 1 June 2009	116	852	4	972
Additions	155	164	-	319
Disposals	-	-	-	-
At 31 May 2010	271	1,016	4	1,291
Additions	-	19	-	19
Disposals	(13)	-	-	(13)
At 31 May 2011	258	1,035	4	1,297
Additions	-	28	-	28
Disposals	(1)	(108)	-	(109)
Reversal	(36)	-	-	(36)
At 31 May 2012	221	955	4	1,180
<i>Depreciation</i>				
At 1 June 2009	53	469	1	523
Disposals	-	-	-	-
Charge for the year	24	144	3	171
At 31 May 2010	77	613	4	694
Disposals	(11)	-	-	(11)
Charge for the year	47	188	-	235
At 31 May 2011	113	801	4	918
Disposals	(1)	(107)	-	(108)
Charge for the year	54	144	-	198
Reversal	(13)	-	-	(13)
At 31 May 2012	153	838	4	995
Net Book Value at 31 May 2012	68	117	-	185
Net Book Value at 31 May 2011	145	234	-	379
Net Book Value at 31 May 2010	194	403	-	597
Net Book Value at 1 June 2009	63	383	3	449

Depreciation charges (or reversals if any) are apportioned to the income statement as follows

	2012 £'000	2011 £'000	2010 £'000
<i>Charge</i>			
Cost of Sales (including reversals)	144	188	144
Administration expenses	41	47	27
Total	185	235	171

The adjustment in 2012 arises from a non payment of an asset previously capitalised in 2010 but where performance is short of specification. The Company is in discussion with the supplier to agree costs of rectification.

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 9 Available for sale financial assets

	Unquoted equity investments £'000
Cost at 1 June 2009 and 1 June 2010	25
Disposals	(25)
At 31 May 2011	-
At 31 May 2012	-
Net Book Value at 31 May 2012	-
Net Book Value at 31 May 2011	-
Net Book Value at 31 May 2010	25
Net Book Value at 1 June 2009	25

The Company held a non controlling interest in Phonetic Arts Limited which was sold upon an acquisition of that company in December 2010. There is a potential deferred consideration due in December 2013, not expected to be material, and is not recognised in the financial statements.

### 10 Operating leases as lessee

At 31 December the Company's future minimum operating lease payments were as follows

	Land & Buildings		
	2012 £'000	2011 £'000	2010 £'000
Minimum lease payments due within one year	469	469	160
Minimum lease payments due within one to five years	947	1,377	1,798
Minimum lease payments due after five years	-	-	224
Total	1,416	1,846	2,182

Lease payments recognised as an expense during the period amount to £414,983 (2011 £414,983, 2010 £356,408)

The lease payments relate to the rental contracts for the office buildings, which expire April 2015 and July 2015

The Company's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

### 11 Financial assets and liabilities

#### 11.1 Categories of financial assets and liabilities

The carrying amounts presented in the Statement of Financial Position relate to the following categories of financial assets and liabilities

Financial assets	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Available for sale financial assets				
Non controlling interest in non quoted company	-	-	25	25
Loans and receivables				
Trade and other receivables	2,362	1,883	434	1,303
Cash and cash equivalents	1,686	1,064	2,010	5,724
	4,048	2,947	2,444	7,027
Total	4,048	2,947	2,469	7,052



# Frontier Developments Limited

## Notes to the financial statements (continued)

Financial liabilities	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Financial liabilities measured at amortised cost				
Current				
Trade and other payables	585	1,200	444	276

## 12 Deferred tax assets and liabilities

Deferred taxes arising from temporary differences can be summarised as follows

	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Accelerated Capital Allowances	533	576	710	628
Short term timing differences	(36)	(29)	(22)	-
Tax Losses	(497)	(547)	-	(129)
Total	-	-	688	499
Balance b/fwd	-	688	499	43
Effect of tax rate change on opening balance	-	(14)	-	-
Movement in year	-	(674)	189	446
Balance c/fwd	-	-	688	499

The above deferred tax liability has been recognised in the statement of financial position. The table below summarises the deferred tax assets for the Company which have not been recognised in the financial statements as only a proportion of the tax losses are anticipated to crystallise or be able to be used in the foreseeable future. Total UK tax losses available at 31 May 2012 amount to £3,729,030 (2011 £4,422,710, 2010 £nil, 2009 £461,770)

	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Deferred tax asset not provided				
Losses	(398)	(603)	-	-

## 13 Inventories

Inventories recognised in the statement of financial position can be analysed as follows

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
Work in progress	75	259	2,329	47

There is no material difference between the replacement cost of inventory and the amounts stated above

A total of (£183,687) (2011 (£2,242,908), 2010 (£4,169,887)) was included in profit and loss as an expense/(credit) to cost of sales. This includes an amount of £nil (2011 £2,895,888, 2010 £nil) resulting from write down of inventories

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 14 Trade and other receivables

Trade and other receivables recognised in the Statement of Financial Position can be analysed as follows

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
Trade receivables, gross	2,153	3,651	2,173	1,109
Allowances for credit losses	-	(2,169)	(2,001)	-
Trade receivables, net	2,153	1,482	172	1,109
Other receivables	209	401	262	194
<b>Financial assets</b>	<b>2,362</b>	<b>1,883</b>	<b>434</b>	<b>1,303</b>
Prepayments	88	108	106	56
VAT and taxation	55	141	27	-
<b>Non-financial assets</b>	<b>143</b>	<b>249</b>	<b>133</b>	<b>56</b>
<b>Trade and other receivables</b>	<b>2,505</b>	<b>2,132</b>	<b>567</b>	<b>1,359</b>

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

As at the 2011 and 2010 year end, some of the unimpaired trade receivables are past their due date. There are no indications that financial assets neither past due nor impaired, or past due but not impaired are irrecoverable.

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired 0 – 90 days £'000	>90 days £'000
2012	2,153	2,153	-	-
2011	1,482	1,451	31	-
2010	172	-	-	172

No other receivables are past their due date.

A reconciliation of the allowances for credit losses provision for trade receivable is provided below.

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
Brought forward provision	2,169	2,001	-	-
Debts written off in year	(2,169)	-	-	-
Increase in provision	-	168	2,001	-
<b>Carried forward provision</b>	<b>-</b>	<b>2,169</b>	<b>2,001</b>	<b>-</b>

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 15 Cash and cash equivalents

Cash and cash equivalents include the following components

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
Cash at bank and in hand				
• GBP	1,671	1,038	2,007	5,719
• EUR	10	2	3	4
• USD	5	24	-	1
Financial assets	1,686	1,064	2,010	5,724

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. The net carrying value of cash and cash equivalents equates to fair value.

### 16 Equity

#### 16.1 Share Capital

	31 May 2012		31 May 2011		31 May 2010		1 June 2009	
	Number '000	£'000	Number '000	£'000	Number '000	£'000	Number '000	£'000
<u>Called up, allotted and fully paid</u>								
Ordinary shares of £0.001 each	12,364	12	12,364	12	12,366	12	12,309	12

Movements in Ordinary Shares is as follows

	Number '000
At 1 June 2009	12,309
Shares issued on option exercises	57
At 31 May 2010	12,366
Shares issued on option exercises	38
Shares cancelled	(40)
At 31 May 2011	12,364
Shares issued on option exercises	-
At 31 May 2012	12,364

During 31 May 2010, 57,700 Ordinary shares of £0.001 each were allotted as fully paid at a premium of £0.499 per share. During the year to 31 May 2011, 38,000 Ordinary shares of £0.001 each were allotted as fully paid at a premium of £0.659 per share during the year and 40,000 Ordinary shares of £0.001 each were purchased back by the company at a premium of £0.149 per share.

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 17 Employee remuneration

Expenses recognised for employee benefits (including Directors) are analysed below

Staff costs for all employees, including Directors, consist of:	2012 £'000	2011 £'000	2010 £'000
Wages & salaries	7,248	6,946	7,486
Social security costs	764	745	753
Pension costs	3	4	4
	<u>8,015</u>	<u>7,695</u>	<u>8,243</u>

Included in the above payroll costs is £1,251,545 (2011 £1,692,641, 2010 £1,057,489) capitalised within intangible fixed assets (note 7)

Pension costs relate to contributions to one employee's private pension plan

The average number of employees, including Directors, during the year were	2012 Number	2011 Number	2010 Number
Research & Development	209	224	233
General & Administrative	6	6	7
	<u>215</u>	<u>230</u>	<u>240</u>

Remuneration of Directors	2012 £'000	2011 £'000	2010 £'000
Directors' emoluments	273	244	342
Non-executive fees	8	-	-

Emoluments of highest paid director	2012 £'000	2011 £'000	2010 £'000
Emoluments	<u>81</u>	<u>80</u>	<u>93</u>

Remuneration of key management personnel	2012 £'000	2011 £'000	2010 £'000
Short-term employee benefits			
Salaries including bonuses	573	682	808
Social Security	72	81	96
Total short-term employee benefits	<u>645</u>	<u>763</u>	<u>904</u>
Non executive fees	8	-	-
Share based compensation charge	-	-	-

Key management of the company are the Board and senior management (functional heads)

Number of key management personnel, including directors at the statement of financial position date	8	9	11
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During the year no share options were exercised by the Directors (2011 nil, 2010 nil)

The share options held by Directors are as follows

# Frontier Developments Limited

## Notes to the financial statements (continued)

	2012 £'000	2011 £'000	2010 £'000
David Walsh	151,000	151,000	151,000
Jonathan Watts	90,000	90,000	90,000
Jonathan Roach	70,500	70,500	70,500

### 18 Share options

The company has an employee share option scheme (EMI scheme), under which options may be granted to employees (including directors) to subscribe for ordinary shares in the company. The scheme was approved by shareholders in a general meeting.

	2012		2011		2010	
	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price
Opening balance	1,151,900	1.04	1,419,900	1.04	1,576,500	0.99
Exercised during the year	-	-	(38,000)	0.66	(57,700)	0.50
Forfeited during the year	(217,000)	1.22	(230,000)	1.07	(98,900)	0.58
Closing balance	934,900	1.00	1,151,900	1.04	1,419,900	1.04
Exercisable at the year end	934,900	1.00	1,151,900	1.04	1,419,900	1.04

The share options at the end of the year have a weighted average contractual life of 3 years 6 months (2011 4 years 6 months, 2010 5 years 6 months).

No options were granted to the Directors or exercised by the Directors in the year.

Under the rules of the share options scheme, options are not normally exercisable until 1 year from the date of the grant. Options are valued at date of grant using the Black Scholes Option Pricing Model. There are no performance conditions attaching to the options.

### 19. Trade and other payables

Trade and other payables recognised in the statement of financial position can be analysed as follows:

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
Trade payables	40	846	103	94
Other taxation and social security	188	204	219	192
Accruals and deferred income	639	839	512	2,245
Total trade and other payables	867	1,889	834	2,531

Trade and other payables are due within one year and are non-interest bearing. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 20 Provisions for dilapidations

	31 May 2012 £'000	31 May 2011 £'000	31 May 2010 £'000	1 June 2009 £'000
At 1 June	113	80	-	-
Provided for in year	37	33	80	-
Dilapidation provision as at 30 May	150	113	80	-

The dilapidation provision relates to the rental contracts for two office buildings (included within note 10). These leases expire April 2015 and July 2015. This is when the majority of this expenditure is expected to be incurred. The provision is based on the estimated costs of work to be performed to bring the buildings back to a state of repair and condition, similar to the start of the lease.

### 21 Finance income

Finance income may be analysed as follows for the reporting periods presented

	2012 £'000	2011 £'000	2010 £'000
Interest income from cash and cash equivalents	10	7	16

### 22 Taxation on ordinary activities

(a) Analysis of the charge in the year

	2012 £'000	2011 £'000	2010 £'000
UK Corporation Tax based on the results for the year	2	(12)	12
Deferred Tax	-	(688)	189
<b>Tax on profit on ordinary activities</b>	<b>2</b>	<b>(700)</b>	<b>201</b>

# Frontier Developments Limited

## Notes to the financial statements (continued)

### (b) Factors affecting tax expenses

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 24% (2011 21%, 2010 21%) as follows

	31/5/12 £'000	31/5/11 £'000	31/5/10 £'000
Profit (Loss) on ordinary activities before taxation	1,400	(2,122)	(181)
Tax on profit (loss) on ordinary activities at standard rate	336	(446)	(38)
Factors affecting tax expense for the year			
Adjustment on transition to IFRS	(124)	-	-
Expenses not deductible for tax purposes	-	-	7
Deferred tax not provided	13	(54)	381
Research and development tax credits	(223)	(195)	(139)
Exercise of share options	-	(5)	(10)
Total amount of tax	2	(700)	201

### Factors that may affect future tax charges

The Company takes advantage of the enhanced tax deductions for Research & Development expenditure in the UK and expects to continue to be able to do so

## 23 Cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow

Adjustments	2012 £'000	2011 £'000	2010 £'000
Depreciation, amortisation and impairment	1,808	1,363	1,024
Adjustment of cost of tangible fixed asset (see note 8)	36	-	-
Finance income	(10)	(7)	(16)
Loss/(gain) on disposal of fixed assets and available for sale assets	1	(38)	-
Taxation	2	(700)	201
Foreign exchange	(8)	2	3
Total adjustments	1,829	620	1,212
Net changes in working capital			
Change in inventories	184	2,070	(2,282)
Change in trade and other receivables	(373)	(1,565)	792
Change in trade and other payables	(1,022)	1,055	(1,734)
Change in provisions	37	33	80
Total changes in working capital	(1,174)	1,593	(3,144)

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 24 Related party transactions

Two Shareholders receive ongoing royalties or commission as a percentage of royalty sales for some of the Company's Video games' launched in prior periods

Connected party	Expense paid	Creditor balance	Expense paid	Creditor balance	Expense paid	Creditor balance
	2012	2012	2011	2011	2010	2010
	£'000	£'000	£'000	£'000	£'000	£'000
Chris Sawyer – Royalties	76	18	64	-	70	-
Marjacq Micro Limited – Sales Commission	29	6	38	8	76	-

One recently appointed Director was granted an interest free qualifying loan for the purchase of Shares under the Company's Share Option Plan in April 2010. The loan value was and currently stands at £8,000

### 25 Financial instrument risks

#### Risk management objectives and policies

The Company is exposed to various risks in relation to financial assets and liabilities. Financial assets and liabilities by category are summarised in note 11. The main types of risks are credit risk, currency risk and liquidity risk.

The Company's risk management is coordinated in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows.

The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

#### 25.1 Credit risk

The company's exposure is limited to carrying amount of financial assets and cash and cash equivalents recognised at the year end date (as summarised in note 11).

The company's management consider all financial assets, not impaired, for each reporting date are of good credit quality, including those past due. In respect of trade and other receivables the company is exposed to significant credit risk for a single counterparty. Regular credit checks are performed to minimise risk.

The company considers it has minimal credit risk for liquid funds and other short term financial assets as cash is held with reputable UK banks.

None of the company's financial assets are secured by collateral or other credit enhancements.

#### 25.2 Foreign currency risk

The Company's base currency is pounds sterling (GBP). Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily US dollars (USD) and Euro (EUR).

The Company does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Company's currency transactions are not considered significant enough to warrant this.



# Frontier Developments Limited

## Notes to the financial statements (continued)

The carrying amounts of the Company's US Dollar and Euro denominated monetary assets outside the functional currency entity at the reporting date is as follows

	2012		2011		2010	
	US \$ £'000	€uro £'000	US \$ £'000	€uro £'000	US \$ £'000	€uro £'000
Assets	8	12	40	2	34	3

In addition some of the Company's revenue and overhead transactions are completed in a foreign currency. Transaction exposure is hedged through the use of currency bank accounts.

### Foreign Currency Sensitivity analysis

The following table details the Company's sensitivity to a 5% increase or decrease in the Sterling exchange rate against all relevant currencies, albeit the main exposure is US\$. An increase in Sterling would lead to a decrease in income.

	2012 £'000	2011 £'000	2010 £'000
<b>Effect of a 5% change in relevant exchange rate on</b>			
Income Statement	32	16	30
Equity	32	16	30

### 25.3 Liquidity risk analysis

Liquidity risk is the risk arising from the Company not being able to meet its obligations as they fall due. The Company manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business. Net cash requirements determine headroom or any shortfalls. This analysis shows if there is a need to seek external funding or the need for securing finance from its shareholder base.

The Company's financial liabilities have contractual maturities as summarised below:

	Within 6 months £'000	Current Between 6 and 12 months £'000	Between 1 and 5 years £'000	Non-Current Later than 5 years £'000
<b>As at 31 May 2012</b>				
Trade and other payables	164	282	139	-
<b>As at 31 May 2011</b>				
Trade and other payables	912	78	210	-
<b>As at 31 May 2010</b>				
Trade and other payables	151	248	45	-
<b>As at 1 June 2009</b>				
Trade and other payables	244	17	15	-

# Frontier Developments Limited

## Notes to the financial statements (continued)

### Financial assets used for managing liquidity risk

Cash flows from trade and other receivables are contractually due within six months

Cash is generally held in accounts with immediate notice. Where surplus cash deposits are identified these are placed in accounts with access terms of no more than 90 days

### Interest rate sensitivity

The company has no borrowings through which it is subject to interest rate risk

The risk associated with interest earned on cash balances is low given low level of interest currently being earned

## 26 Capital management policies and procedures

The Company's capital management objective is to ensure the Company's ability to continue as a going concern by securing sufficient funding through equity or debt

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the strategic plans of the business over a rolling 3 year forecast. In order to maintain or adjust the capital structure and provide funds to support the planned growth, the Company may issue new shares or raise other funds through debt.

At 31 May 2012 the company had no borrowings. The Company is not subject to externally imposed capital requirements.

Capital for the reporting period under review is summarised as follows

	2012 £'000	2011 £'000	2010 £'000
Total equity	6,763	5,365	6,768
Less cash and cash equivalent	(1,686)	(1,064)	(2,010)
	<u>5,077</u>	<u>4,301</u>	<u>4,758</u>

## 27. First-time adoption of IFRS

These are the Company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 June 2009.

The Company's IFRS accounting policies presented in note 3 have been applied in preparing the financial statements for the year ended 31 May 2012, the comparative information and the opening statement of financial position at the date of transition, 1 June 2009.

The Company has applied IFRS 1 First-time Adoption of International Financial Reporting Standards (as revised in 2008) in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive income and reported cash flows are presented in this section and are further explained in the notes that accompany the tables.

### 27.1 First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exemptions as set out below:

- Financial assets and liabilities that had been de-recognised before 1 June 2009 under previous GAAP have not been recognised under IFRS.

# Frontier Developments Limited

## Notes to the financial statements (continued)

- The Company has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences)

### 27.2 Reconciliation of equity

Equity at the date of transition, 1 June 2009, can be reconciled to the amounts reported under previous GAAP as follows

UK GAAP Format	UK GAAP £'000	Presentational and transitional differences £'000	IFRS £'000	IFRS Format
<b>Fixed Assets</b>				<b>Non-current assets</b>
Intangible assets	233	2,314	2,547	Intangible assets
Investments	25	-	25	Other long term financial assets
Tangible assets	715	(266)	449	Property, plant and equipment
	973	2,048	3,021	<b>Total non-current assets</b>
<b>Current assets</b>				<b>Current assets</b>
Stock and work in progress	50	(3)	47	Inventories
Debtors	1,359	-	1,359	Trade and other receivables
Cash at bank and in hand	5,724	-	5,724	Cash and cash equivalents
	7,133	(3)	7,130	
<b>Creditors amounts falling due within one year</b>				<b>Current liabilities</b>
Creditors amounts falling due within one year	(2,729)	198	(2,531)	Trade and other payables
<b>Creditors amounts falling due after more than one year</b>				<b>Non-current liabilities</b>
Creditors amounts falling due after more than one year	-	-	-	Provisions
Deferred tax	(43)	(456)	(499)	Deferred tax
<b>Net assets</b>	<b>5,334</b>	<b>1,787</b>	<b>7,121</b>	<b>Net assets</b>
<b>Capital and Reserves</b>				<b>Equity</b>
Called Up Share capital	12	-	12	Share capital
Share premium account	1,746	-	1,746	Share premium account
FRS 20 Option reserve	-	448	448	Option reserve
Profit and loss account	3,576	1,339	4,915	Retained earnings
<b>Total equity</b>	<b>5,334</b>	<b>1,787</b>	<b>7,121</b>	<b>Total equity</b>

Transitional differences between IFRS and previous GAAP arose due to

- Capitalisation of Development costs and related work in progress adjustment
- Reclassification between Intangible assets, tangible assets, work in progress and accrued expenses
- Recognition of employee benefits accrual for holiday pay
- Deferred tax liability

Presentational differences between IFRS and previous GAAP arose due to

- Reclassification of Share option reserve to separately present

# Frontier Developments Limited

## Notes to the financial statements (continued)

Equity at 31 May 2010 can be reconciled to the amounts reported under previous GAAP as follows

UK GAAP Format	UK GAAP £'000	Presentational and transitional differences £'000	IFRS £'000	IFRS Format
<b>Fixed Assets</b>				<b>Non-current assets</b>
Intangible assets	251	2,603	2,854	Intangible assets
Investments	25	-	25	Other long term financial asset
Tangible assets	872	(275)	597	Property, plant and equipment
	<u>1,148</u>	<u>2,328</u>	<u>3,476</u>	<b>Total non-current assets</b>
<b>Current assets</b>				<b>Current assets</b>
Stock and work in progress	3,592	(1,263)	2,329	Inventories
Debtors	567	-	567	Trade and other receivables
Cash at bank and in hand	2,010	-	2,010	Cash and cash equivalents
	<u>6,169</u>	<u>(1,263)</u>	<u>4,906</u>	
<b>Creditors amounts falling due within one year</b>				<b>Current liabilities</b>
Creditors amounts falling due within one year	(674)	(159)	(833)	Trade and other payables
		(12)	(12)	Current tax liabilities
<b>Creditors amounts falling due after more than one year</b>				<b>Non-current liabilities</b>
Creditors amounts falling due after more than one year	(81)	-	(81)	Provisions
Deferred tax	(27)	(661)	(688)	Deferred tax
<b>Net assets</b>	<u>6,535</u>	<u>233</u>	<u>6,768</u>	<b>Net assets</b>
<b>Capital and Reserves</b>				<b>Equity</b>
Called Up Share capital	12	-	12	Share capital
Share premium account	1,775	-	1,775	Share premium account
FRS 20 Option reserve	-	442	442	Option reserve
Profit and loss account	4,748	(109)	4,539	Retained earnings
<b>Total equity</b>	<u>6,535</u>	<u>233</u>	<u>6,768</u>	<b>Total equity</b>

Transitional differences between IFRS and previous GAAP arose due to

- Capitalisation of Development costs and related adjustment to work in progress
- Reclassification between Intangible assets, tangible assets and work in progress
- Recognition of employee benefits holiday pay accrual
- Deferred Tax liability

Presentational differences between IFRS and previous GAAP arose due to

- Reclassification of Share option reserve to separately present

# Frontier Developments Limited

## Notes to the financial statements (continued)

Equity at 31 May 2011 can be reconciled to the amounts reported under previous GAAP as follows

UK GAAP Format	UK GAAP £'000	Presentational and transitional differences £'000	IFRS £'000	IFRS Format
<b>Fixed Assets</b>				<b>Non-current assets</b>
Intangible assets	1,051	2,470	3,521	Intangible assets
Tangible assets	618	(239)	379	Property, plant and equipment
	<u>1,669</u>	<u>2,231</u>	<u>3,900</u>	<b>Total non-current assets</b>
<b>Current assets</b>				<b>Current assets</b>
Stock and work in progress	348	(89)	259	Inventories
Debtors	2,144	(12)	2,132	Trade and other receivables
	-	12	12	Current tax assets
Cash at bank and in hand	<u>1,064</u>	<u>-</u>	<u>1,064</u>	Cash and cash equivalents
	<u>3,556</u>	<u>(89)</u>	<u>3,467</u>	
<b>Creditors amounts falling due within one year</b>				<b>Current liabilities</b>
Creditors amounts falling due within one year	(1,713)	(176)	(1,889)	Trade and other payables
<b>Creditors amounts falling due after more than one year</b>				<b>Non-current liabilities</b>
Creditors amounts falling due after more than one year	(113)	-	(113)	Provisions
Deferred tax	-	-	-	Deferred tax
<b>Net assets</b>	<u>3,399</u>	<u>1,966</u>	<u>5,365</u>	<b>Net assets</b>
<b>Capital and Reserves</b>				<b>Equity</b>
Called Up Share capital	12	-	12	Share capital
Share premium account	1,794	-	1,794	Share premium account
FRS 20 Option reserve	-	364	364	Option reserve
Profit and loss account	<u>1,593</u>	<u>1,602</u>	<u>3,195</u>	Retained earnings
<b>Total equity</b>	<u>3,399</u>	<u>1,966</u>	<u>5,365</u>	<b>Total equity</b>

Transitional differences between IFRS and previous GAAP arose due to

- Capitalisation of Development costs and related adjustment to work in progress
- Reclassification between Intangible assets, tangible assets and work in progress
- Recognition of employee benefits accrual for holiday pay

Presentational differences between IFRS and previous GAAP arose due to

- Reclassification of Share option reserve to separately present

# Frontier Developments Limited

## Notes to the financial statements (continued)

### 27.3 Reconciliation of total comprehensive income

Total comprehensive income for the reporting period ended 31 May 2010 can be reconciled to the amounts reported under previous GAAP as follows

UK GAAP Format	UK GAAP £'000	Presentational and transitional differences £'000	IFRS £'000	IFRS Format
Turnover	9,604	-	9,604	Revenue
Cost of sales	(4,700)	(1,503)	(6,203)	Cost of Sales
Gross Profit	4,904	(1,503)	3,401	Gross Profit
Administrative expenses	(3,752)	154	(3,598)	Administrative expenses
Operating Profit	1,152	(1,349)	(197)	Operating Loss
Interest receivable	16	-	16	Finance income
Profit on Ordinary Activities before Taxation	1,168	(1,349)	(181)	Loss before tax
Tax on profit on Ordinary Activities	4	(205)	(201)	Income tax
Profit for the Financial Year	1,172	(1,554)	(382)	Loss for the year
Retained profit for the year	1,172	(1,554)	(382)	Total comprehensive income for the year

Transitional differences between IFRS and previous GAAP arose due to

- Capitalisation of Development costs and related adjustment to work in progress
- Recognition of employee benefits accrual for holiday pay
- Movement in share option reserve
- Deferred tax movement

Presentational differences between IFRS and previous GAAP arose due to

- Transfer of costs from Administrative expenses to cost of sales being project support costs

# Frontier Developments Limited

## Notes to the financial statements (continued)

Total comprehensive income for the reporting period ended 31 May 2011 can be reconciled to the amounts reported under previous GAAP as follows

UK GAAP Format	UK GAAP £'000	Presentational and transitional differences £'000	IFRS £'000	IFRS Format
Turnover	11,196	-	11,196	Revenue
Cost of sales	(7,346)	(4,727)	(12,073)	Cost of Sales
Gross Profit	3,850	(4,727)	(877)	Gross Profit/(Loss)
Administrative expenses	(7,052)	5,800	(1,252)	Administrative expenses
Operating Loss	(3,202)	1,073	(2,129)	Operating Loss
Finance income	7	-	7	Finance income
Loss on Ordinary Activities before Taxation	(3,195)	(1,073)	(2,122)	Loss before tax
Tax on Loss on Ordinary Activities	39	661	700	Income tax
Loss for the Financial Year	(3,156)	(1,734)	(1,422)	Loss for the year
Total retained loss for the year	(3,156)	(1,734)	(1,422)	Total comprehensive income for the year

Transitional differences between IFRS and previous GAAP arose due to

- Capitalisation of Development costs and related adjustment to work in progress
- Re-computation of work in progress capitalised and subsequently part impaired
- Recognition of employee benefits
- Movement in share option reserve
- Deferred tax movement

Presentational differences between IFRS and previous GAAP arose due to

- Transfer of costs from Administrative expenses to cost of sales being project support costs and impairment of intangible asset

### 27.4 Reconciliation of cash flows

The components of cash and cash equivalents under previous GAAP are consistent to those presented under IFRS

### 28 Ultimate control

The directors consider that Mr D J Braben has ultimate control of the company