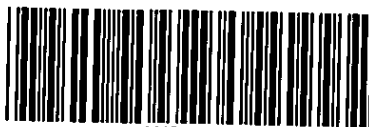


# Square Enix Limited

## Report and Financial Statements

31 March 2007

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COMPANIES HOUSE

# Square Enix Limited

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Registered No 3679704

## Directors

Y Wada  
Y Matsuda  
J Yamamoto

## Secretary

M Sherlock

## Auditors

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

## Bankers

Mizuho Corporate Bank Ltd  
London Branch  
River Place House  
7-11 Finsbury Circus  
London  
EC2M 7DH

The Bank of Tokyo-Mitsubishi, UFJ Ltd  
12-15 Finsbury Circus  
London  
EC2M 7BT

Union Bank of California  
777 S Figueroa St , #620  
Los Angeles  
Ca 90017

## Solicitors

Field Fisher Waterhouse  
35 Vine Street  
London  
EC3N 2AA

## Registered office

Castle House  
37-45 Paul Street  
London  
EC2A 4LS

## Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2007

### Principal activity

The principal activity of the company in the year under review was the development and sale of interactive video games software

### Results and dividends

In the year ended 31<sup>st</sup> March 2007, the Company generated a turnover of €76,190,000, representing a €69,422,000 increase over the previous financial year's turnover of €6,768,000. This increase coincided with the Company's move into self-publishing and the release of four major titles, each of which exceeded expectations at retail.

The directors do not recommend the payment of a final dividend (2006 – €1,287,000)

At year end, the Company's financial position was satisfactory, with sufficient cash reserves to support operations and continued growth.

### Key risks and uncertainties

The Company's status as a wholly-owned subsidiary means that it is highly dependent on the Group to which it belongs, both in terms of its products and the markets within which it is active. The principal risks to which the Company is exposed are (1) short-term changes in consumer demand for the Group's products, (2) competition from other software producers and (3) changes in pricing associated with the current period of hardware transition.

### Key performance indicators

The Company's key financial and other performance indicators during the year were as follows

	2007 €'000	2006 €'000	Change %
Turnover	76,190	6,768	1,025%
Operating profit	13,260	339	3,811%
Profit after tax	9,076	260	3,385%
Shareholders' funds	13,843	4,767	190%
Current assets as % of current liabilities	139%	228%	(39%)

### Future developments

The directors aim to further continue to grow sales in the UK and European market in future years.

### Financial risk management policies

The company's purchases are denominated mainly in Euros and sales are denominated mainly in Sterling, which exposes the company to exchange rate risk. No foreign exchange hedging activities are performed.

## Directors' report

### Directors

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

Y Wada

Y Matsuda

J Yamamoto

There are no directors' interests requiring disclosure under the Companies Act 1985

### Appointment of Auditors

During the year PricewaterhouseCoopers LLP resigned as auditors and Ernst & Young LLP were appointed

In accordance with s385 of the Companies Act 1985 a resolution is to be proposed at the annual general meeting for reappointment of Ernst & Young LLP as auditors of the company

### Creditor payment policy and practice.

The company does not follow any specific code or standard on payment practice but agrees payment terms during contractual negotiations with all prospective suppliers. It is the company's policy to abide by the agreed terms of payment where appropriate. The average number of days' credit taken by the company for trade purchases for the year ended 31 March 2007 was 83 days (period ended 31 March 2006 - 51 days)

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the board



Secretary

- 2 NOV 2007

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of Square Enix Limited**

We have audited the company's financial statements for the year ended 31 March 2007 which comprise as the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, and the Balance Sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

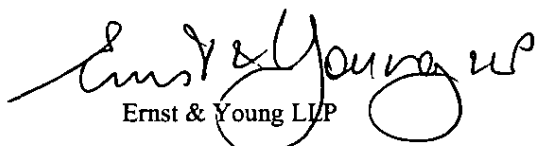
# Independent auditors' report

to the members of Square Enix Limited (continued)

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Ernst & Young LLP

Registered auditor

London

October 2007

- 5 NOV 2007

## Profit and loss account

for the year ended 31 March 2007

	Notes	2007 €'000	2006 €'000
<b>Turnover</b>	2	76,190	6,768
Cost of sales		(52,105)	(1,122)
<b>Gross profit</b>		24,085	5,646
Administrative expenses		(10,825)	(5,307)
<b>Operating profit</b>	4	13,260	339
Interest receivable and similar charges	5	159	72
Interest payable and similar charges	6	(461)	–
<b>Profit on ordinary activities before taxation</b>		12,958	411
Taxation on profit on ordinary activities	7	(3,882)	(151)
<b>Profit for the financial year</b>		9,076	260

All operations are continuing

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of €9,076,000 (2006 – profit of €260,000)



## Balance sheet

at 31 March 2007

	Notes	2007 €'000	2006 €'000
<b>Fixed assets</b>			
Tangible assets	9	640	290
<b>Current assets</b>			
Stocks	10	201	755
Debtors	11	21,004	2,819
Current asset investments	13	—	4,000
Cash at bank and in hand		25,772	677
		46,977	8,251
<b>Creditors</b> amounts falling due within one year	14	(33,774)	(3,611)
<b>Net current assets</b>		13,203	4,640
<b>Total assets less current liabilities</b>		13,843	4,930
<b>Provisions for liabilities</b>	15	—	(163)
<b>Net assets</b>		13,843	4,767
<b>Capital and reserves</b>			
Called up share capital	16	4,507	4,507
Profit and loss account	17	9,336	260
<b>Equity shareholders' funds</b>	17	13,843	4,767

The financial statements were approved by the board on

  
Director

2. Nov. 2007

## Notes to the financial statements

at 31 March 2007

### 1. Accounting policies

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

The financial statements are prepared under the historical cost convention.

#### ***Statement of cash flows***

The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows as the company was a subsidiary undertaking of a company which prepares publicly available group financial statements.

#### ***Tangible fixed assets***

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Short-term leasehold improvements                      -            Over the term of the lease

Fixtures, fittings and equipment                        -            20% - 33% per annum

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

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value. Cost represents invoiced price from the supplier. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

#### ***Deferred taxation***

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

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

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

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

## Notes to the financial statements

at 31 March 2007

### 1. Accounting policies (continued)

#### **Leases**

Operating lease rentals are charged to income in equal annual amounts over the lease term

#### **Current asset investments**

Current asset investments represent cash deposits held with the Company's bankers, which mature within one month

#### **Revenue recognition**

##### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of goods

In common with other companies in the electronic games industry the company has arrangements with certain customers whereby price protection is offered. A provision is made for anticipated credits arising from these arrangements and is calculated by reference to the estimated customer stock holdings at the balance sheet date, the rate of stock sell through in the channel, past experience and situations of which the management is aware. Revenue is recognised net of these allowances and excluding value added tax

##### *Rendering of services*

Revenue from subscriptions to online games is recognised in relation to the period in which the subscriptions relate net of value added tax

##### *Interest income*

Revenue is recognised as interest accrues using the effective interest method

#### **Pensions costs**

The company operates a group personal pension scheme on a defined contribution basis. The cost of the scheme is charged to the profit and loss account on the basis of contributions payable. The contributions are based on the group pension costs

#### **Functional currency**

The functional currency is deemed to be the Euro as the majority of purchase and sales are denominated in Euros. The exchange rate used to translate monetary items denominated in Sterling to Euro was £1 to €1.47345

## Notes to the financial statements

at 31 March 2007

### 2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report

An analysis of turnover by geographical market is given below

	2007 €'000	2006 €'000
UK and Europe	67,477	3,320
Japan	3,678	3,448
Other	5,035	–
	<u>76,190</u>	<u>6,768</u>

The company operates in one principal area of activity, that of the sale of interactive video games software

	2007 €'000	2006 €'000
Sale of interactive video games	76,190	6,768
	<u>76,190</u>	<u>6,768</u>

The directors have chosen not to disclose profit/(loss) or net assets by region or class of business, as this information would be prejudicial to the interests of the company

### 3. Staff costs

	2007 €'000	2006 €'000
<i>a) Directors' emoluments</i>		
Aggregate emoluments in respect in qualifying services	364	201

Included above are the following emoluments paid to the highest paid director

	2007 €'000	2006 €'000
Aggregate emoluments in respect of qualifying services	364	201

	2007 €'000	2006 €'000
<i>b) Staff costs</i>		
Wages and salaries (excluding directors and officers)	3,081	2,142
Social security costs	301	160
Pension costs	28	18
	<u>3,410</u>	<u>2,320</u>

## Notes to the financial statements

at 31 March 2007

### 3. Staff costs (continued)

The average monthly number of employees during the year was as follows

	2007 No	2006 No
Marketing	6	5
Quality assurance	13	3
Production	61	22
Administration	7	7
	<u>87</u>	<u>37</u>

No directors were a members of the group personal pension scheme during the year (2006 – 1)

### 4. Operating profit

This is stated after charging/(crediting)

	2007 €'000	2006 €'000
Auditors' remuneration	51	36
Auditors' remuneration for other services	7	128
During the year, Ernst & Young LLP were appointed as company auditors, replacing PricewaterhouseCoopers LLP		
Depreciation of owned fixed assets	243	203
Operating lease rentals - land and buildings (office premises)	352	496
(Gain)/loss on foreign currency translation	(466)	(4)
	<u>          </u>	<u>          </u>

### 5. Interest receivable

	2007 €'000	2006 €'000
Bank interest receivable	159	72
	<u>          </u>	<u>          </u>

### 6. Interest payable and similar charges

	2007 €'000	2006 €'000
Foreign exchange losses	460	–
Other interest	1	–
	<u>461</u>	<u>–</u>

## Notes to the financial statements

at 31 March 2007

### 7. Tax

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

The tax charge is made up as follows

	2007 €'000	2005 €'000
<i>Current tax</i>		
UK corporation tax on the profit for the year	3,894	151
Under/(over) provision in prior years	(9)	–
Total current tax (note 7(b))	3,885	151
<i>Deferred tax</i>		
Origination and reversal of timing differences	(3)	–
Total deferred tax (note 12)	(3)	–
Total tax charge for year	3,882	151

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

The tax assessed for the year is higher/lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%) The differences are explained below

	2007 €'000	2006 €'000
Profit on ordinary activities before tax	12,958	411
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	3,887	123
<i>Effects of</i>		
Expenses not deductible for tax purposes	12	28
Capital allowances in advance of depreciation	(5)	–
Adjustments to tax charge in respect of previous years	(9)	–
Current tax for the year (note 7(a))	3,885	151

## Notes to the financial statements

at 31 March 2007

### 8. Dividends

Dividends declared and paid during the year

	2007 €'000	2006 €'000
Ordinary - interim paid	-	1,287

### 9. Tangible fixed assets

	Short-term leasehold improvements €'000	Fixtures fittings and equipment €'000	Total €'000
Cost			
At 1 April 2006	75	1,201	1,276
Additions	221	372	593
At 31 March 2007	296	1,573	1,869
Accumulated depreciation			
At 1 April 2006	73	913	986
Charge for year	23	220	243
At 31 March 2007	96	1,133	1,229
Net book value			
At 31 March 2007	200	440	640
At 31 March 2006	2	288	290

### 10. Stocks

	2007 €'000	2006 €'000
Finished goods and goods for resale	201	755

## Notes to the financial statements

at 31 March 2007

### 11. Debtors

	2007 €'000	2006 €'000
Trade debtors	14,137	1,240
Amounts owed by group undertakings		
Parent company	1,105	1,133
Other debtors		
Due within one year	48	49
Due after more than one year	140	138
Deferred tax (see note 12)	40	37
Prepayments and accrued income	5,534	222
	<u>21,004</u>	<u>2,819</u>

### 12. Deferred tax asset

	2007 €'000	2006 €'000
Opening balance	37	37
(Charge)/credit to the profit and loss account	3	–
Closing balance	<u>40</u>	<u>37</u>

\*

### 13. Current asset investments

	2007 €'000	2006 €'000
Term deposits	–	4,000

Current asset investments represent interest-bearing time deposits held by external parties on 30 days maturity. None were held at 31 March 2007 (2006 – €4,000,000)

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

	2007 €'000	2006 €'000
Trade creditors	13,783	27
Amounts owed to group undertakings		
Parent company	9,276	583
Current corporation tax	4,085	99
Other taxes and social security	2,537	97
Accruals and deferred income	4,093	2,805
	<u>33,774</u>	<u>3,611</u>



# Notes to the financial statements

at 31 March 2007

## 15. Provisions for liabilities

2007	2006
€'000	€'000
–	163

The company signed a lease contract for new premises during 2005 and moved in 2006 before the lease on the previous office had expired. The lease on the previous office expired at the end of December 2006. Full provision was made for this lease commitment in the March 2006 financial statements.

## 16. Share capital

	2007	Authorised 2006
Ordinary shares of £1 each	50,000,000	50,000,000
	<u>50,000,000</u>	<u>50,000,000</u>
	<i>Allotted, called up and fully paid</i>	
	2007	2006
	£'000	£'000
3,000,000 Ordinary shares of £1 each	3,000	3,000
	<u>3,000</u>	<u>3,000</u>
	2007	2006
	€'000	€'000
Called up, allotted and fully paid total	4,507	4,507
	<u>4,507</u>	<u>4,507</u>

## 17. Reconciliation of movements in shareholders' funds

	Share capital €'000	Profit and account €'000	Share- holders funds €'000
At 1 April 2005	4,507	1,287	5,794
Profit for the year	–	260	260
Dividend paid	–	(1,287)	(1,287)
At 31 March 2006	<u>4,507</u>	<u>260</u>	<u>4,767</u>
Profit for the year	–	9,076	9,076
At 31 March 2007	<u>4,507</u>	<u>9,336</u>	<u>13,843</u>

## Notes to the financial statements

at 31 March 2007

### 18. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the Square Enix Co , Ltd group companies

### 19. Other financial commitments

At 31 March 2007 the company had annual commitments under non-cancellable operating leases as set out below

	2007	2006
	<i>Land and</i>	<i>Land and</i>
	<i>buildings</i>	<i>buildings</i>
	€'000	€'000
Operating leases which expire		
within one year	—	163
in two to five years	—	—
in over five years	349	244
	<u>349</u>	<u>407</u>

### 20. Ultimate parent undertaking and controlling party

As at 31 March 2007, the company's immediate and ultimate parent company and controlling party was Square Enix Co Ltd incorporated in Japan Square Enix Co Ltd is the parent company of the smallest and largest group Consolidated financial statements for Square Enix Co Ltd are available from Shinjuku Bunka Quint Bldg , 3-22-7 Yoyogi, Shibuya-ku, Tokyo 151-8544, Japan