

Railsimulator.com Limited

Annual Report and Financial Statements

Year Ended

31 March 2019

Company Number 06751125

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Railsimulator.com Limited

Company Information

Directors	P S Jackson C N McMicking J L Rissik M H Storey G L Johnson-Brown R D Boulton
Registered number	06751125
Registered office	3rd Floor North Fitted Rigging House Anchor Wharf The Historic Dockyard Chatham Kent ME4 4TZ
Independent auditor	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

Railsimulator.com Limited

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Railsimulator.com Limited

Strategic Report For the Year Ended 31 March 2019

The directors present the strategic report of Railsimulator.com Limited (“the Company”) and the audited financial statements for the year ended 31 March 2019.

Strategy & Business Model

Railsimulator.com Limited, which trades as Dovetail Games, creates and publishes train, fishing and flight simulation software to consumers worldwide.

The Company has four simulation games which it fully owns the intellectual property rights (“IP”) to:

- Train Simulator (available on PC)
- Train Sim World (available on PC, Microsoft Xbox One and Sony PlayStation 4)
- Euro Fishing (available on PC, Microsoft Xbox One and Sony PlayStation 4)
- Fishing Sim World (available on PC, Microsoft Xbox One and Sony PlayStation 4)

The business develops and publishes these trains and fishing simulation games together with downloadable extensions to these games (downloadable content – “DLC”). Train Simulator has been developed using the Company’s own proprietary software, while Train Sim World, Euro Fishing and Fishing Sim World have been developed using the EPIC Unreal Engine 4. The Company also works closely with third parties who create additional content.

Games for PC are sold principally through Steam, a video game digital distribution platform developed by Valve Corporation. Games for Microsoft Xbox One and Sony PlayStation 4 are distributed through distribution platforms operated by Microsoft and Sony respectively. Boxed versions of the games are also sold through distributors.

The business also distributes Microsoft Flight Simulator game under licence from Microsoft Corporation Inc. and add on extensions to that software. The game is available only on PC and is distributed principally through Steam.

The strategy of the business is to continue to develop simulation games, achieving a near photographic level of accuracy. Through game updates and additional downloadable train routes, locomotives, fishing lakes and equipment sold by the Company, enthusiasts can continue to expand their hobby experience.

Business Review

The year to 31 March 2019 was another year of business growth and investment for the Company.

Train Sim World, was released for the first time on Sony PlayStation 4 in May 2018 and in full on Microsoft Xbox One in March 2018. During the year, the simulator saw further development including the release of 5 additional routes and 2 new locomotives. Further work was also undertaken for routes and locomotives to be released in the financial year to 31 March 2020.

The Company also released Train Simulator 2019 in August 2018 which contained for the first time a 64-bit version. A further 7 routes and 4 locomotives were released as DLC. Third party developers released 11 routes and 15 locomotives.

Fishing Sim World was released in September 2018 on Sony PlayStation 4, Microsoft Xbox One and PC. Based on the Epic Unreal Engine 4 the game offers a high level of realism. During the year, 6 additional DLC lakes and an equipment pack were released. Work on enhancements to the core simulator and further DLC for release in next financial year was also undertaken. No further development work was undertaken on the Euro Fishing game with a consequent reduction in sales.

Railsimulator.com Limited

Strategic Report (continued) For the Year Ended 31 March 2019

Business review (continued)

During the financial year it was decided to focus development work on train and fishing simulators where the Company controls all of the IP. Accordingly, the Company ceased direct development of flight simulation software and content though 3rd parties continue to create new content. The Company continues to market and distribute the content through the Steam platform.

In December 2018, the operations of the business were combined into larger fully renovated office accommodation in Chatham, Kent. The Stirling office was closed with employees being offered the choice to relocate or receive financial compensation. The new riverside office enhances the quality of accommodation as a result of an extensive fit out and provides for the future growth and demands of the Company. During the year the number of employees decreased from 150 at March 2018 to 131 at March 2019.

Financial Report

The results for the year and the financial position as at the year-end are as shown in the following financial statements. For the year, the Company grew revenues by 19% to more than £16.3 million and made a profit of £646k (2018: restated loss of £189k).

Financial key performance indicators

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

	2019	As restated 2018
Revenue	£16,395k	£13,758k
DTG own franchise revenue growth**	38.6%	23.1%
Gross profit margin	55.8%	51.9%
Adjusted earnings*	£2,030k	£446k

*Adjusted earnings is made up of earnings including video games tax credit but before depreciation and amortisation, interest, monitoring and transactional fees, exceptional items, leadership performance linked bonus scheme and deferred taxation.

**DTG own franchise revenue growth is the growth in revenues from the train and fishing franchises owned exclusively by the Company.

Revenue has grown continuously year on year for the 10 years since the formation of the Company. The growth in revenue from DTG franchises of 39% (2018 23%) was as a result of a 55% increase in revenue from the trains franchise. Revenue from fishing simulators declined by 4% as Euro fishing revenues reduced, offset in part by new revenues from Fishing Sim World launched in September 2018.

Administrative expenses in the year were £8,845k (2018: £8,380k). The increase was due to higher people costs, primarily due to the accrual of performance related bonuses for staff and directors.

Cash in hand at the end of the year was £2,680k (2018: £840k). The increase was the result of good operating cash flow and additional funding offset by the costs of the new office and the costs of closing the office in Stirling. The amount of additional funding received from Alcuin Capital Partners LLP and Clydesdale Bank was £310k and £400k respectively. These funds enabled the business to maintain throughout the year its investment and development plans. The loans were at the same rate and with the same maturity as existing facilities.

Railsimulator.com Limited

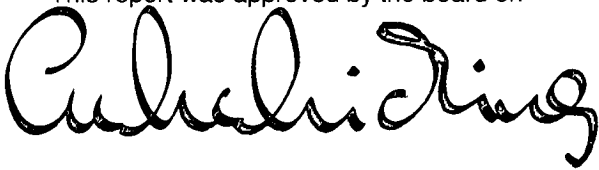
Strategic Report (continued)
For the Year Ended 31 March 2019

Principal risks and uncertainties

The principal risks and uncertainties affecting the Company are in the opinion of the directors: -

- the performance of global economies which may impact the wealth of consumers and their willingness to acquire the game;
- the threat of competition from comparable simulators;
- the loss of key members of staff, impairing the Company's ability to develop and launch new content. To retain staff, the Company seeks to ensure a competitive level of compensation and an attractive working environment. In addition, a range of incentives are provided including a share option scheme;
- the risk of attack to the Company's systems and products by hackers or criminals with the consequent disruption to the Company's operations and reputation together with the risk of penalties and sanctions under GDPR;
- the Company relies on third party distributors to sell its products. While the Company has recently created its own store and is now truly multi-platform the failure of a distributor would materially affect the ability of the Company to distribute its simulation games; and
- the Company uses distributors who are based overseas, the revenue from whom is subject to the risk of adverse movements in currency exchange rates. Exposure is managed through foreign currency spot and forward foreign exchange contracts with suitable counterparties, principally the Company's bank.

This report was approved by the board on 21 . 8 . 19 and signed on its behalf.



C N McMicking
Director

Railsimulator.com Limited

Directors' Report For the Year Ended 31 March 2019

The directors present their report together with the audited financial statements for the year ended 31 March 2019.

Principal activity

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

Results and dividends

The profit for the year, after taxation, amounted to £646,645 (2018 - restated loss £189,169).

The directors do not recommend payment of a dividend during the year (2018 - £Nil).

Directors

The directors who served during the year were:

P S Jackson
C N McMicking
W S Bainbridge (resigned 31 March 2019)
J L Rissik
M H Storey
G L Johnson-Brown (appointed 2 May 2018)
R D Boulton (appointed 20 March 2019)

Business review

A review of the business and its principal risks and uncertainties is set out in the strategic report on pages 1 to 3 of these financial statements.

Disclosure of information to auditor

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

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

Subsequent events

On 23 May 2019, P S Jackson became a director of The Chatham Historic Dockyard Trust, a company limited by guarantee. This company is the landlord of Railsimulator.com Limited, with the lease having been signed before his appointment. No remuneration is received by P S Jackson for this role.

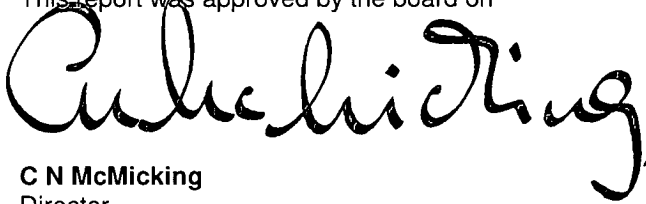
Railsimulator.com Limited

Directors' Report (continued) For the Year Ended 31 March 2019

Auditor

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

This report was approved by the board on 21.8.19 and signed on its behalf.



C N McMicking
Director

Railsimulator.com Limited

Directors' Responsibilities Statement For the Year Ended 31 March 2019

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Railsimulator.com Limited

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

Opinion

We have audited the financial statements of Railsimulator.com Limited ("the company") for the year ended 31 March 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Railsimulator.com Limited

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Railsimulator.com Limited

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

BDO LLP

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

Date: 21 AUGUST 2019

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

Railsimulator.com Limited

Statement of Comprehensive Income For the Year Ended 31 March 2019

		2019	As restated
	Note	£	2018
			£
Turnover	4	16,395,564	13,758,437
Cost of sales		(7,250,717)	(6,620,765)
Gross profit		9,144,847	7,137,672
Administrative expenses		(8,844,777)	(8,379,670)
Exceptional administrative expenses	6	(406,818)	-
Other operating income	5	1,164,576	1,419,085
Operating profit/(loss)	7	1,057,828	177,087
Interest payable and similar charges	10	(437,783)	(377,634)
Profit/(loss) before tax		620,045	(200,547)
Tax on profit/(loss)	11	26,600	11,378
Profit/(loss) for the financial year		646,645	(189,169)

All amounts relate to continuing operations.

There was no other comprehensive income for 2019 (2018: £Nil).

The notes on pages 14 to 32 form part of these financial statements.

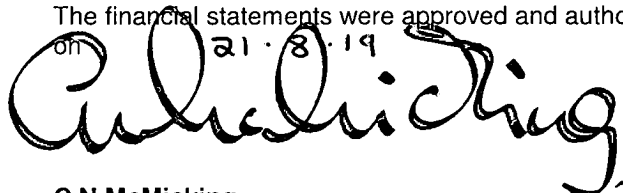
Railsimulator.com Limited

Registered number: 06751125

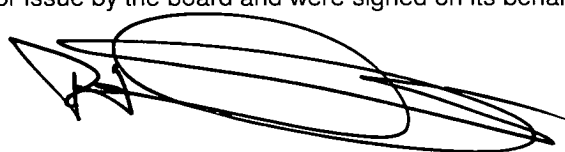
Statement of Financial Position As at 31 March 2019

	Note	2019 £	As restated 2018 £
Fixed assets			
Tangible assets	12	510,679	193,347
Investments	13	1	1
		<u>510,680</u>	<u>193,348</u>
Current assets			
Debtors	14	2,611,828	2,807,315
Cash at bank and in hand		2,679,964	840,067
		<u>5,291,792</u>	<u>3,647,382</u>
Creditors: amounts falling due within one year	15	(1,819,602)	(1,491,474)
Net current assets		<u>3,472,190</u>	<u>2,155,908</u>
Total assets less current liabilities		<u>3,982,870</u>	<u>2,349,256</u>
Creditors: amounts falling due after more than one year	16	(4,930,210)	(3,999,970)
Provisions for liabilities			
Deferred tax	18	-	(26,600)
Net liabilities		<u>(947,340)</u>	<u>(1,677,314)</u>
Capital and reserves			
Called up share capital	19	10,257	9,947
Share premium account	20	1,035,150	985,460
Profit and loss account	20	(1,992,747)	(2,672,721)
Total equity		<u>(947,340)</u>	<u>(1,677,314)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf

on 21.8.19


C N McMicking
Director



R D Boulton
Director

The notes on pages 14 to 32 form part of these financial statements.

Railsimulator.com Limited

Statement of Changes in Equity For the Year Ended 31 March 2019

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 April 2017 (as previously stated)	9,916	978,791	(2,813,677)	(1,824,970)
Prior year adjustment (note 27)	-	-	304,590	304,590
At 1 April 2017 (as restated) (note 27)	9,916	978,791	(2,509,087)	(1,520,380)
Comprehensive income for the year				
Loss for the year as restated (note 27)	-	-	(189,169)	(189,169)
Total comprehensive income for the year	-	-	(189,169)	(189,169)
Shares issued during the year	31	6,669	-	6,700
Credit to equity for equity settled share based payment	-	-	25,535	25,535
Total transactions with owners	31	6,669	25,535	32,235
At 1 April 2018 (as previously stated)	9,947	985,460	(2,930,024)	(1,934,617)
Prior year adjustment (note 27)	-	-	257,303	257,303
At 1 April 2018 (as restated)	9,947	985,460	(2,672,721)	(1,677,314)
Comprehensive income for the year				
Profit for the year	-	-	646,645	646,645
Total comprehensive income for the year	-	-	646,645	646,645
Shares issued during the year	310	49,690	-	50,000
Credit to equity for equity settled share based payment	-	-	33,329	33,329
Total transactions with owners	310	49,690	33,329	83,329
At 31 March 2019	10,257	1,035,150	(1,992,747)	(947,340)

Railsimulator.com Limited

Statement of Cash Flows For the Year Ended 31 March 2019

	2019	As restated
	£	2018
		£
Cash flows from operating activities		
Profit/(loss) for the financial year	646,645	(189,169)
Adjustments for:		
Amortisation of intangible assets	-	107,217
Depreciation of tangible assets	122,456	130,989
Impairments of intangible assets	-	739,946
Loss on disposal of tangible assets	29,953	2,418
Interest paid	437,783	377,634
Taxation credit	(1,161,972)	(1,326,688)
Decrease/(increase) in debtors	15,549	(224,206)
Increase/(decrease) in creditors	328,128	(1,741,520)
Corporation tax received	1,315,310	1,052,518
Share option expense	12,516	25,535
Net cash generated from/(utilised in) operating activities	1,746,368	(1,045,326)
Cash flows from investing activities		
Purchase of tangible fixed assets	(476,030)	(116,308)
Proceeds on sale of tangible fixed assets	6,289	-
Net cash utilised in investing activities	(469,741)	(116,308)
Cash flows from financing activities		
Issue of ordinary shares	50,000	6,700
New secured loans	710,000	-
Repayment of loans	(160,000)	(149,167)
Interest paid	(36,730)	(28,792)
Net cash generated from/(utilised in) financing activities	563,270	(171,259)
Net increase/(decrease) in cash and cash equivalents	1,839,897	(1,332,893)
Cash and cash equivalents at beginning of year	840,067	2,172,960
Cash and cash equivalents at the end of year	2,679,964	840,067
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	2,679,964	840,067

The notes on pages 14 to 32 form part of these financial statements.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

1. General information

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

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The following principal accounting policies have been applied:

2.2 Exemption from preparing consolidated financial statements

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

2.3 Going concern

These financial statements have been prepared on the going concern basis. Of amounts owed to creditors, £4,930,210 (2018 - £3,999,970) is due over one year meaning that there is no immediate demand on cashflow for these amounts. The company is in a net current asset position of £3,472,190 (2018 - £2,155,908) which demonstrates that it has sufficient liquid resources to meet its liabilities as they fall due.

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

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

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.4 Revenue

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

Video games tax relief credit

Video games tax relief ('VGTR') credits are only recognised where it is the directors' belief that a tax credit will be recoverable. This is based upon the Company's experience at obtaining the required certification to facilitate its titles in development to qualify for VGTR and success at previous claims. An estimate is made throughout the year, and a receivable is recognised, based on qualifying expenditure during the year, VGTR is recognised in other operating income in the Statement of Comprehensive Income.

2.5 Finance costs

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

2.6 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

All foreign exchange gains and losses are presented in the statement of comprehensive income within administrative expenses.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.7 Tangible fixed assets

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

Depreciation of fixed assets

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

The estimated useful lives range as follows:

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

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

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

2.8 Impairment of fixed assets

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

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Debtors

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

2.11 Cash and cash equivalents

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

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

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.12 Financial instruments

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

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

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

2.13 Creditors

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

2.14 Government grants

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

2.15 Share based payments

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

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

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

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

2.16 Operating leases: the company as lessee

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

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.17 Pensions

Defined contribution pension plan

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

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

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

2.18 Current and deferred taxation

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

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

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

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

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

2.19 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

2.20 Research and development

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

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.21 Warrants

Warrants are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is established using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of warrants and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, is included in equity.

The liability component is amortised over the term of the loan as a share based payment charge recognised in the statement of comprehensive income.

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

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

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

Other key sources of estimation uncertainty:

- Tangible fixed assets (note 12)

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

- Share option and warrant charge (note 21)

The company has granted share options to selected employees and warrants to a loan provider and shareholder. A corresponding share based expense has been recognised. In making its judgement as to the expense, management considered the detailed guidance in FRS 102 – Share based payments, in particular, guidance as to an appropriate valuation model including vesting conditions and period.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

4. Turnover

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

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	2,702,019	1,648,451
Europe	278,238	200,050
Rest of the world	13,415,307	11,909,936
	<u>16,395,564</u>	<u>13,758,437</u>

5. Other operating income

	2019 £	As restated 2018 £
Video games tax relief credit	1,135,372	1,315,310
Other operating income	27,244	103,775
Government grants receivable	1,960	-
	<u>1,164,576</u>	<u>1,419,085</u>

6. Exceptional items

	2019 £	2018 £
Restructure expenses	331,545	-
Premises expenses	75,273	-
	<u>406,818</u>	<u>-</u>

Restructure expenses relate to the closure of the Stirling Office and ceasing the development of Flight Sim World, which was discontinued in May 2018.

Premises expenses relate to the move to new offices in Chatham in December 2018.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

7. Operating profit

The operating loss is stated after charging/(crediting):

	2019 £	2018 £
Research & development charged as an expense	1,072,001	1,111,506
Depreciation of tangible fixed assets	122,456	130,989
Amortisation of intangible assets, including goodwill	-	107,217
Impairment of intangible assets	-	739,946
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	22,020	21,000
Fees payable to the company's auditor and its associates for the other services	2,540	2,150
Exchange differences	(25,102)	16,697
Defined contribution pension cost	77,471	52,471
Operating lease payments	186,269	157,885
	<u>186,269</u>	<u>157,885</u>

8. Employees

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

	2019 £	2018 £
Wages and salaries	5,324,390	4,941,299
Social security costs	490,056	565,202
Cost of defined contribution scheme	203,445	52,471
	<u>6,017,891</u>	<u>5,558,972</u>

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

	2019 No.	2018 No.
Employees	<u>140</u>	<u>148</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

9. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	853,240	453,006
Social security costs	110,781	57,207
Cost of defined contribution scheme	8,137	2,830
	<u>972,158</u>	<u>513,043</u>

During the year retirement benefits were accruing to 3 directors (2018 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £237,241 (2018 - £158,467).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,187 (2018 - £1,530).

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

10. Interest payable and similar expenses

	2019 £	As restated 2018 £
Bank interest payable	36,730	28,792
Other loan interest payable	350,758	301,555
Loan amortisation costs	50,295	47,287
	<u>437,783</u>	<u>377,634</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

11. Taxation

	2019 £	2018 £
Video games tax credit repayable	(1,135,372)	(1,315,310)
Reclassification of video games tax relief credit to other operating income	1,135,372	1,315,310
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	(26,600)	(11,378)
Total deferred tax	<u>(26,600)</u>	<u>(11,378)</u>
Taxation on loss on ordinary activities	<u>(26,600)</u>	<u>(11,378)</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	As restated 2018 £
Profit/(loss) on ordinary activities before tax	<u>620,045</u>	<u>(200,547)</u>
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	117,809	(38,104)
Effects of:		
Fixed asset differences	-	2,401
Expenses not deductible for tax purposes	83,179	1,380
Non-taxable income	-	(24,729)
Other permanent differences	-	6,564
Changes to tax rates - deferred tax	-	91,158
Video game development tax profit adjustment	(1,385,015)	(1,563,242)
Deferred tax not recognised	510,265	763,468
Difference between the rate of corporation tax and the rate of relief under the video game tax credit	(272,489)	(315,675)
Reclassification of video games tax relief credit to other operating income	919,651	1,065,401
Total tax credit for the year	<u><u>(26,600)</u></u>	<u><u>(11,378)</u></u>

Factors that may affect future tax charges

Reductions in the UK Corporation tax rate from 20% to 17% (19% effective from 1 April 2017 and 17% effective from 1 April 2020) have been substantively enacted. This will impact the company's future tax charge accordingly. The deferred tax at 31 March 2019 has been calculated based on the rates substantively enacted at the date of the statement of financial position.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

12. Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Office equipment £	Total £
Cost				
At 1 April 2018	88,462	102,526	511,177	702,165
Additions	269,083	95,646	111,301	476,030
Disposals	(88,462)	(36,027)	(43,486)	(167,975)
At 31 March 2019	<u>269,083</u>	<u>162,145</u>	<u>578,992</u>	<u>1,010,220</u>
Depreciation				
At 1 April 2018	60,248	76,954	371,616	508,818
Charge for the year	20,972	18,340	83,144	122,456
Disposals	(68,672)	(28,660)	(34,401)	(131,733)
At 31 March 2019	<u>12,548</u>	<u>66,634</u>	<u>420,359</u>	<u>499,541</u>
Net book value				
At 31 March 2019	<u>256,535</u>	<u>95,511</u>	<u>158,633</u>	<u>510,679</u>
At 31 March 2018	<u>28,214</u>	<u>25,572</u>	<u>139,561</u>	<u>193,347</u>

13. Fixed asset investments

	Investments in subsidiary company £
Cost	
At 1 April 2018 and 31 March 2019	<u>1</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

13. Fixed asset investments (continued)

Subsidiary undertaking

The following was a subsidiary undertaking of the company:

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

The address of the registered office is 10th Floor, 133 Finnieston Street, Glasgow, Scotland, G3 8HB.

The aggregate of the share capital and reserves as at 31 March 2019 and the profit or loss for the year ended on that date for the subsidiary undertaking was as follows:

Name	Aggregate of share capital and reserves
Dovetail Games Limited	1

14. Debtors

	2019 £	2018 £
Trade debtors	1,296,466	1,071,294
Other debtors	1,226,039	1,390,455
Prepayments and accrued income	89,323	345,566
	<u>2,611,828</u>	<u>2,807,315</u>

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debtors was £2,011 (2018 - £Nil).

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Notes to the Financial Statements For the Year Ended 31 March 2019

15. Creditors: Amounts falling due within one year

	2019 £	2018 £
Bank loans	170,833	170,833
Trade creditors	111,505	279,378
Other taxation and social security	117,463	138,485
Other creditors	7,520	5,765
Accruals and deferred income	1,412,281	897,013
	<u>1,819,602</u>	<u>1,491,474</u>

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

	2019 £	As restated 2018 £
Bank loans	537,500	297,500
Other loans	4,392,710	3,702,470
	<u>4,930,210</u>	<u>3,999,970</u>

Included within creditors: amounts falling due after more than one year is an amount of £4,392,710 (2018 - £3,702,470) in respect of liabilities payable or repayable in instalments which fall due for payment after two years but within five years from the reporting date.

Total bank loans are secured over the assets of the company to the amount of £708,333 (2018 - £468,333).

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

17. Financial instruments

	2019 £	As restated 2018 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>4,045,012</u>	<u>1,927,872</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(6,624,829)</u>	<u>(5,347,194)</u>

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

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

18. Deferred taxation

	2019 £
At beginning of year	26,600
Charged to profit or loss	(26,600)
At end of year	<u>-</u>

The provision for deferred taxation is made up as follows:

	2019 £	2018 £
Accelerated capital allowances	<u>-</u>	<u>26,600</u>

19. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
813,953 (2018 - 813,453) Ordinary 1 shares of £0.01 each	8,139	8,134
1 A1 Ordinary share of £0.01	-	-
41,750 (2018 - 11,250) A2 Ordinary shares of £0.01 each	418	113
1,700 E Ordinary shares of £1.00 each	1,700	1,700
	<u>10,257</u>	<u>9,947</u>

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

19. Share capital (continued)

On 24 August 2018, 2 January 2019 and 16 January 2019, the company issued 15,000, 15,000 and 1,000 Ordinary 1 £0.01 shares for consideration of £15,000 (£1 per share), £30,000 (£2 per share), and £5,000 (£5 per share) respectively.

On 28 August 2018, 4 January 2019 and 17 January 2019, the company transferred 15,000, 15,000 and 500 Ordinary 1 £0.01 shares respectively as A2 Ordinary £0.01 shares for no consideration.

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

Rights attached to shares:

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

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

20. Reserves

The company has the following reserves:

Share premium account

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

Profit and loss account

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

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

21. Share based payments

As at 31 March 2019, there were 254,950 share options issued to 47 members of staff under the Railsimulator.com Limited EMI Share Option Scheme which was adopted by the company on 28 January 2010. All of the 254,950 share options issued qualified under the EMI scheme.

At 31 March 2019, the number of vested options was 242,489 (2018 - 271,906) and the number of unvested options was 12,461 (2018 - 21,582). Of the unvested options, 8,878 (2018 - 12,457) will vest within one year.

	Weighted average exercise price (pence) 2019	Number 2019	Weighted average exercise price (pence) 2018	Number 2018
Outstanding at the beginning of the year	664	293,488	668	300,628
Granted during the year	2,000	5,000	2,000	750
Forfeited during the year	1,754	(12,538)	1,670	(4,730)
Exercised during the year	161	(31,000)	219	(3,060)
Cancelled during the year	0	-	2,000	(100)
Outstanding at the end of the year	698	254,950	664	293,488

As at 31 March 2019 the company had issued 4,575 share options to 1 member of staff under the Railsimulator.com Limited Management Unapproved Option Scheme which was adopted by the company on 20 June 2017. As at 31 March 2019 all 4,575 share options had vested.

The company recognised total expenses of £12,515 (2018 - £25,535) related to employee equity settled share based payments transactions in the year. Share options have been valued using the Black Scholes model.

A warrant is in place representing subscription rights for 383,377 A1 Ordinary shares of £0.01 each at an amount of £5.22 per share. As a result of further funds of £310,000 being drawn during the year, the subscription rights increased by 76,676 shares. The warrant has been valued using the Black Scholes model. Volatility of 27% was used in the model based on market comparable data with the underlying value of the shares based on forward earnings multiples discounted to the present value using a discount rate of 8%.

22. Pension commitments

The company operated a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £77,471 (2018 - £52,471). No contributions (2018 - £Nil) were payable to the fund at the reporting date.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

23. Commitments under operating leases

At 31 March 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	104,754	124,308
Later than 1 year and not later than 5 years	809,085	3,168
Later than 5 years	417,302	-
	<u>1,331,141</u>	<u>127,476</u>

24. Related party transactions

During the year interest payable to a shareholder and an entity which a director is also a member of was accrued to an amount of £350,758 (2018 - £301,555). Shown within other loans due over more than one year is an amount owed to this shareholder of £4,392,710 (2018 - £3,702,470). During the year, £33,167 (2018 - £31,167) was paid to this entity in respect of other services, and a further £310,000 was received.

During the year, the company paid £33,000 (2018 - £33,000) for services to an entity with a common shareholder and director. At year end, £Nil (2018 - £Nil) was owed to the entity.

25. Post balance sheet events

On 23 May 2019, P S Jackson became a director of The Chatham Historic Dockyard Trust, a company limited by guarantee. This company is the landlord of Railsimulator.com Limited, with the lease having been signed before his appointment. No remuneration is received by P S Jackson for this role.

26. Ultimate controlling party

No one individual has control over the company.

Railsimulator.com Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

27. Prior year restatement

A prior year adjustment has been made to capitalise transaction costs of £247,758 and to recognise a warrant for subscription rights to 306,701 A1 Ordinary shares of £0.01 in relation to the finance raised in 2016. The transaction costs were written off to the statement of comprehensive income in the accounts for the year ending 31 March 2017, but have now been capitalised and amortised over the duration of the financing. The warrant has now been included in the statement of financial position and has been amortised over the duration of the financing. The impact of the adjustments was as follows:

- As at 1 April 2017: decrease in other loans of £304,589 (a decrease in net liabilities of £304,589), and an increase to the profit and loss account of £304,589.
- As at 31 March 2018 and for the year then ended: increase in other loans of £47,287 (an increase in net liabilities), and an increase in interest payable and similar charges of £47,287, representing an increase in the loss for the year of £47,287.

The Company also changed their accounting policy with regards to classification of the video games tax relief credit during the year. Video games tax relief credit previously recognised under 'tax on profit/(loss)' is now recognised as 'other operating income'. The accounting policy change has been recognised retrospectively. The impact of the adjustment was as follows:

- As at 1 April 2017: £nil impact on the profit and loss account.
- As at 31 March 2018 and for the year then ended: increase in other operating income of £1,315,300, and decrease in tax on profit/(loss) of £1,315,300, representing a £nil impact on the loss for the year.