

Registered number: 03425917

THE CREATIVE ASSEMBLY LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

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THE CREATIVE ASSEMBLY LIMITED

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THE CREATIVE ASSEMBLY LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

INTRODUCTION

The directors present their Annual Report, consisting of the Strategic Report and the Directors' Report, and the audited financial statements of The Creative Assembly Limited ("the company") for the year ended 31 March 2016.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company operates a computer games software development business.

Turnover for the year to 31 March 2016 was £30,501,799 compared to £30,285,066 for 2015. Turnover comprises income received under development agreements on titles developed by the company.

The company reported an operating profit of £8,890,546 for the year ended 31 March 2016 compared to an operating profit of £4,711,101 for 2015. The increase in operating profit is a result of improved operating margins from third party development agreements.

KEY PERFORMANCE INDICATORS (KPIs)

The company focuses on various KPIs for the discussion within the management team. Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs are not necessary for an understanding by the relevant external parties for appraising the performance or position of the business further to the information included in this report and the financial information and notes contained in the body of the financial statements.

The profit for the year, after taxation, amounted to £8,983,982 (2015 - £7,903,356).

At 31 March 2016, the company had net assets of £16,224,735 (2015 - £7,240,753).

BUSINESS OUTLOOK


Whilst the company has a wealth of capability in launching successful games, the interactive gaming industry market continues to shift from publishing packaged goods into digital content and as such the overall environment becomes more challenging.

PRINCIPAL RISKS AND UNCERTAINTIES

The company develops games in a highly competitive market whereby the success or failure of a title is consumer oriented. The company seeks to continue to enhance its portfolio of titles to exploit existing and new opportunities in the consumer market.

Effective project management is critical to the profitability of the company as overruns can mean the company can incur losses.

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



D Ward
Director

Date: 21 December 2016

THE CREATIVE ASSEMBLY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016

The directors present their report for the year ended 31 March 2016.

DIRECTORS

The directors who served during the year and subsequently were as follows:

D Ward
J Post
T Miyazaki

DIVIDENDS

The directors declared, and authorised payment of interim dividends totalling £Nil during the year ended 31 March 2016 (2015 - £6,000,000).

EMPLOYEE INVOLVEMENT

The Creative Assembly Limited's policy is to consult and discuss with employees matters likely to affect employees' interests. Information is provided to all employees which seeks to achieve a common awareness of the financial and economic factors affecting the studio's performance and strategy.

Our aim is for everyone to strive to work by the CA Values and use them as a reference point when we make decisions or embark on projects. These values are universal and go beyond individual departments or skillsets.

Our focus is not only on achieving the strategic goals of the studio through the right guidance and direction but also aiming to nurture and develop talent, encouraging our employees to learn and grow.

We engage in regular studio-wide "Breakfast meetings", weekly progress updates and team stand-ups which provide opportunities for everyone to meet new joiners, discuss project work or non-work related topics such as fund-raising, social or sporting events.

DISABLED EMPLOYEES

The Creative Assembly Limited is an equal opportunities employer. Our future success in a highly competitive market depends on our employees and the development of their skills and abilities. The studio is fully committed to providing equal opportunities in its recruitment process, and strives to ensure that during employment every employee is treated with dignity and respect.

There are special provisions which protect disabled employees and job applicants against discrimination in the workplace. Training is provided to all hiring managers and leads and the studio ensures employment policies and practices fully comply with these provisions and considers making appropriate reasonable adjustments to ensure that disabled applicants or employees are not substantially disadvantaged.

Health and insurance benefits are provided to all employees. In the event of members of staff becoming disabled or their health affects their work, every effort is made to ensure that their employment continues and that the appropriate training is arranged. It is the policy of the studio that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

THE CREATIVE ASSEMBLY LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

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.

AUDITOR

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditor and will therefore continue in office.


POST BALANCE SHEET EVENTS

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

MATTERS COVERED IN THE STRATEGIC REPORT

The directors' assessment of the company's principal risks and uncertainties and future developments are set out in the Strategic Report.

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


D Ward
Director

Date: 21 December 2016

27 Great West Road
Brentford
Middlesex
TW8 9BW

THE CREATIVE ASSEMBLY LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 MARCH 2016**

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments and accounting 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CREATIVE ASSEMBLY LIMITED

We have audited the financial statements of The Creative Assembly Limited ("the company") for the year ended 31 March 2016, set out on pages 6 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 on page 4, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 March 2016 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.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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:

- 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.



Neil Hughes (Senior Statutory Auditor)
for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

Date: 21 December 2016

THE CREATIVE ASSEMBLY LIMITED

**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016**

| | Note | 2016 £ | 2015 £ |
|---|------|---------------------|--------------|
| TURNOVER | 4 | 30,501,799 | 30,285,066 |
| Cost of sales | | (17,558,135) | (22,922,198) |
| GROSS PROFIT | | 12,943,664 | 7,362,868 |
| Administrative expenses | | (4,103,109) | (2,997,473) |
| Other operating income | 5 | 49,991 | 345,706 |
| OPERATING PROFIT | | 8,890,546 | 4,711,101 |
| Income from other fixed assets investments | | - | 1,537,869 |
| Interest receivable and similar income | 11 | 841 | - |
| Interest payable and similar charges | 12 | - | (4,476) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | 8,891,387 | 6,244,494 |
| Taxation (charge)/credit on profit on ordinary activities | 13 | 92,595 | 1,658,862 |
| PROFIT FOR THE FINANCIAL YEAR | | 8,983,982 | 7,903,356 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| COMPREHENSIVE INCOME FOR THE YEAR | | 8,983,982 | 7,903,356 |

The notes on pages 9 to 24 form part of these financial statements.

THE CREATIVE ASSEMBLY LIMITED
REGISTERED NUMBER: 03425917

BALANCE SHEET
AS AT 31 MARCH 2016

| | Note | £ | 2016 £ | £ | 2015 £ |
|--|------|--------------|--------------------------|-------------|-------------------------|
| FIXED ASSETS | | | | | |
| Tangible fixed assets | 15 | | 7,674,113 | | 1,815,284 |
| Investments | 16 | | 6,371 | | 6,371 |
| | | | <u>7,680,484</u> | | <u>1,821,655</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 17 | 27,215,393 | | 13,117,932 | |
| Cash at bank and in hand | | 4,798,866 | | 410,970 | |
| | | | <u>32,014,259</u> | | <u>13,528,902</u> |
| Creditors: amounts falling due within one year | 18 | (23,470,008) | | (8,109,804) | |
| NET CURRENT ASSETS | | | <u>8,544,251</u> | | <u>5,419,098</u> |
| NET ASSETS | | | <u><u>16,224,735</u></u> | | <u><u>7,240,753</u></u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 21 | | 100 | | 100 |
| Share premium account | 22 | | 33,735 | | 33,735 |
| Profit and loss account | 22 | | 16,190,900 | | 7,206,918 |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | | | <u><u>16,224,735</u></u> | | <u><u>7,240,753</u></u> |

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



D Ward
 Director

Date: 21 December 2016

The notes on pages 9 to 24 form part of these financial statements.

THE CREATIVE ASSEMBLY LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016**

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|----------------------------|-----------------------------|----------------------------|-------------------|
| | £ | £ | £ | £ |
| At 1 April 2015 | 100 | 33,735 | 7,206,918 | 7,240,753 |
| COMPREHENSIVE INCOME FOR THE YEAR | | | | |
| Profit for the year | - | - | 8,983,982 | 8,983,982 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | - | 8,983,982 | 8,983,982 |
| AT 31 MARCH 2016 | 100 | 33,735 | 16,190,900 | 16,224,735 |

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2015**

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|----------------------------|-----------------------------|----------------------------|------------------|
| | £ | £ | £ | £ |
| At 1 April 2014 | 100 | 33,735 | 5,303,562 | 5,337,397 |
| COMPREHENSIVE INCOME FOR THE YEAR | | | | |
| Profit for the year | - | - | 7,903,356 | 7,903,356 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | - | - | 7,903,356 | 7,903,356 |
| Dividends: Equity capital | - | - | (6,000,000) | (6,000,000) |
| TOTAL TRANSACTIONS WITH OWNERS | - | - | (6,000,000) | (6,000,000) |
| AT 31 MARCH 2015 | 100 | 33,735 | 7,206,918 | 7,240,753 |

The notes on pages 9 to 24 form part of these financial statements.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

1. GENERAL INFORMATION

The Creative Assembly Limited ("the company") is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 27 Great West Road, Brentford, Middlesex, TW8 9BW.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention 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.

Information on the impact of first-time adoption of FRS 102 is given in Note 26.

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

By virtue of section 401 of the Companies Act 2006, the company is exempt from preparing consolidated financial statements as the results of this company are included in the financial statements of its ultimate parent company, SEGA Sammy Holdings Inc., which are publicly available.

The following principal accounting policies have been applied:

2.2 Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The company has been profitable and the directors expect this to continue. The company has cash resources and net assets. Accordingly, the directors believe that the company is well placed to manage its business risks successfully and are satisfied that the company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The company is a qualifying entity as its results are consolidated into the financial statements of SEGA Sammy Holdings Inc., which are publicly available.

As a qualifying entity, the company has taken advantage of the following exemptions:

- from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- from the requirement to disclose details of material transactions between the company and the ultimate parent undertaking or its other wholly owned subsidiaries as required by section 33 of FRS 102;
- from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

2.4 Turnover

Turnover relates to computer games software development services provided to third parties and to SEGA Publishing Europe Limited. Third party services relate primarily to long term contracts and turnover is recognised in accordance with the company's policy for long term contracts. Turnover relating to services provided to SEGA Publishing Europe Limited is determined primarily by reference to costs incurred for the year and is recognised in the same period that the costs are incurred.

2.5 Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Other operating income

The company has elected to take advantage of the research and development expenditure credit ('RDEC'). Relief is given as a taxable credit on 10% of qualifying R&D expenditure. The company recognises research and development expenditure credit as an item of other operating income, taking advantage of the 'above the line' presentation.

2.7 Foreign currency translation

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction. All foreign currency exchange gains and losses are recognised in the Profit and Loss Account.

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

Depreciation is provided on the following basis:

| | |
|-------------------------------------|--|
| Freehold land | - Not depreciated |
| Leasehold improvements | - over the remaining term of the lease |
| Fixtures, fittings & equipment | - 3 - 4 years |
| Freehold buildings and improvements | - 12 - 30 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 Profit and Loss Account.

2.9 Investments

Investments in subsidiaries are measured at cost less accumulated provision for impairment, if any.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

2. ACCOUNTING POLICIES (CONTINUED)

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

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.12 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.14 Finance costs

Finance costs are charged to the Profit and Loss Account 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.

2.15 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

2.16 Operating leases: Lessee

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

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 payments obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

2.18 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Balance Sheet date.

2.19 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.20 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.22 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change 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 balance sheet 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 Balance Sheet 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 balance sheet date.

2.23 Research and development

All research and development costs are charged to the Profit and Loss Account during the period in which they occur. Development costs contracted out to third parties for certain games are charged to the Profit and Loss Account in the same period as that in which the associated revenues are generated.

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY

In preparing the financial statements, management has to make judgements on how to apply the company's accounting policies and make estimates about the future. There are no critical judgements that have been made in arriving at the amounts recognised in the financial statements. The key areas of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and physical condition of the assets. See Note 15 for the carrying amount of tangible assets, and Note 2.8 for the useful economic lives for each class of assets.

Contracts accounted for using the percentage of completion method

Certain fixed price third-party development contracts are accounted for using the percentage of completion ("POC") method. POC accounting requires management to estimate future costs and there is a possibility that management may over- or under-estimate the time required to complete the development of the product in accordance with the company's contractual obligations.

4. TURNOVER

The turnover and profit before tax are attributable to the principal activity of the company. All turnover originates in the United Kingdom.

5. OTHER OPERATING INCOME

| | 2016 £ | 2015 £ |
|-------------|---------------|----------------|
| RDEC income | 49,991 | 345,706 |
| | <u>49,991</u> | <u>345,706</u> |

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting):

| | 2016 £ | 2015 £ |
|--|----------------|----------------|
| Depreciation of tangible fixed assets | 1,352,132 | 1,034,525 |
| Loss on disposal of tangible fixed assets | - | 344 |
| Exchange differences | (554,223) | (332,731) |
| Operating lease rentals - land & buildings | 485,417 | 357,726 |
| | <u>485,417</u> | <u>357,726</u> |

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

7. AUDITOR'S REMUNERATION

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 23,000 | 27,000 |
| FEES PAYABLE TO THE COMPANY'S AUDITOR IN RESPECT OF: | | |
| Audit of financial statements of related undertakings | 5,000 | - |

All of the above costs have been borne by the company with no recharge made to related undertakings.

8. EMPLOYEES

Staff costs were as follows:

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Wages and salaries | 13,156,758 | 11,347,902 |
| Social security costs | 1,460,942 | 1,276,579 |
| Cost of defined contribution scheme (Note 23) | 441,487 | 411,176 |
| | <u>15,059,187</u> | <u>13,035,657</u> |

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

| | 2016 No. | 2015 No. |
|----------------|-------------|-------------|
| Production | 256 | 220 |
| Administration | 37 | 31 |
| | <u>293</u> | <u>251</u> |

9. DIRECTORS' EMOLUMENTS

The directors are also directors of other SEGA companies and the company considers their services to the company insignificant compared with their services performed for other SEGA companies and therefore no directors' emoluments are reported for the company for the year (2015 - £Nil).

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

10. INCOME FROM OTHER FIXED ASSET INVESTMENTS

| | 2016 | 2015 |
|--|-------------|------------------|
| | £ | £ |
| Waiver of amounts due to subsidiary undertakings | - | 1,537,869 |
| | <u>-</u> | <u>1,537,869</u> |
| | <u>-</u> | <u>1,537,869</u> |

Following the closure of The Creative Assembly International Limited ("TCAIL"), a subsidiary undertaking in the prior year, amounts due to TCAIL of £1,537,869 were waived.

11. INTEREST RECEIVABLE

| | 2016 | 2015 |
|---------------------------|-------------|-------------|
| | £ | £ |
| Other interest receivable | 841 | - |
| | <u>841</u> | <u>-</u> |
| | <u>841</u> | <u>-</u> |

12. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2016 | 2015 |
|------------------------|-------------|--------------|
| | £ | £ |
| Other interest payable | - | 4,476 |
| | <u>-</u> | <u>4,476</u> |
| | <u>-</u> | <u>4,476</u> |

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

13. TAX ON ORDINARY ACTIVITIES

| | 2016 £ | 2015 £ |
|---|------------------------|---------------------------|
| CORPORATION TAX | | |
| Current tax on profits for the year | (73,065) | (1,704,106) |
| Adjustments in respect of previous periods | 23,654 | 89,466 |
| | <u>(49,411)</u> | <u>(1,614,640)</u> |
| TOTAL CURRENT TAX CHARGE/(CREDIT) | <u><u>(49,411)</u></u> | <u><u>(1,614,640)</u></u> |
| DEFERRED TAX | | |
| Origination and reversal of timing differences | (61,663) | (55,614) |
| Changes to tax rates | 29,506 | 2,648 |
| Adjustments in respect of prior year | (11,027) | 8,744 |
| TOTAL DEFERRED TAX (Note 20) | <u><u>(43,184)</u></u> | <u><u>(44,222)</u></u> |
| TAXATION CREDIT ON PROFIT ON ORDINARY ACTIVITIES | <u><u>(92,595)</u></u> | <u><u>(1,658,862)</u></u> |

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

13. TAX ON ORDINARY ACTIVITIES (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 21%). The differences are explained below:

| | 2016 £ | 2015 £ |
|--|------------------------|---------------------------|
| Profit on ordinary activities before tax | <u>8,891,387</u> | <u>6,244,494</u> |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 21%) | 1,778,277 | 1,311,344 |
| EFFECTS OF: | | |
| Expenses not deductible for tax purposes | 75,704 | 2,371 |
| Current tax adjustments to tax charge in respect of prior periods | 23,654 | 89,466 |
| Changes to tax rates | 29,506 | 2,648 |
| Deferred tax adjustments in respect of prior periods | (11,027) | 8,744 |
| Loan waiver not taxable | - | (294,000) |
| Tax effect of video games tax relief | (1,828,352) | (2,779,435) |
| Group relief not paid for | (160,357) | - |
| TOTAL TAX CHARGE/(CREDIT) FOR THE YEAR | <u><u>(92,595)</u></u> | <u><u>(1,658,862)</u></u> |

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

A deferred tax asset has been recognised in the financial statements as shown in Note 20.

Changes to the UK corporation tax system were announced in the July 2015 UK budget statement. These include proposals to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. An additional rate reduction to 17% (effective 1 April 2020) was announced in the Budget on 16 March 2016. These further changes had not been substantively enacted at the balance sheet date and therefore are not reflected in these financial statements.

14. DIVIDENDS

| | 2016 £ | 2015 £ |
|--|-----------|------------------|
| Dividends on shares classified in shareholders funds | <u>-</u> | <u>6,000,000</u> |

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

15. TANGIBLE FIXED ASSETS

| | Freehold land & buildings £ | Leasehold improve- ments £ | Fixtures, fittings & equipment £ | Total £ |
|-----------------------------------|--------------------------------------|-------------------------------------|---|-------------------|
| COST | | | | |
| At 1 April 2015 | - | 699,794 | 3,325,174 | 4,024,968 |
| Additions | 4,900,373 | 845,762 | 1,465,438 | 7,211,573 |
| Disposals | - | (5,165) | (927,719) | (932,884) |
| At 31 March 2016 | <u>4,900,373</u> | <u>1,540,391</u> | <u>3,862,893</u> | <u>10,303,657</u> |
| DEPRECIATION | | | | |
| At 1 April 2015 | - | 431,352 | 1,778,332 | 2,209,684 |
| Charge for period on owned assets | - | 260,655 | 1,091,477 | 1,352,132 |
| Disposals | - | (5,165) | (927,107) | (932,272) |
| At 31 March 2016 | <u>-</u> | <u>686,842</u> | <u>1,942,702</u> | <u>2,629,544</u> |
| NET BOOK VALUE | | | | |
| At 31 March 2016 | <u>4,900,373</u> | <u>853,549</u> | <u>1,920,191</u> | <u>7,674,113</u> |
| At 31 March 2015 | <u>-</u> | <u>268,442</u> | <u>1,546,842</u> | <u>1,815,284</u> |

Included in freehold land and buildings is freehold land at cost of £1,500,000 which is not depreciated.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

16. FIXED ASSET INVESTMENTS

| | Shares in group undertakings £ |
|-----------------------|---|
| COST | |
| At 1 April 2015 | 648,283 |
| At 31 March 2016 | 648,283 |
| IMPAIRMENT | |
| At 1 April 2015 | 641,912 |
| At 31 March 2016 | 641,912 |
| NET BOOK VALUE | |
| At 31 March 2016 | 6,371 |
| At 31 March 2015 | 6,371 |

The fixed asset investments comprise a 100% interest in the share capital of The Creative Assembly International Limited (Games development) and The Creative Assembly VGDC Limited (Games development). In 2013, the directors made an impairment provision of £641,912 in respect of the investment in The Creative Assembly International Limited.

17. DEBTORS

| | 2016 £ | 2015 £ |
|--|------------|------------|
| Trade debtors | 2,827,237 | 2,137,219 |
| Amounts due from parent company and fellow subsidiary undertakings | 21,804,795 | 8,709,812 |
| Other debtors | 48,112 | 24,333 |
| Prepayments and accrued income | 281,001 | 104,539 |
| Corporation tax recoverable | 1,988,690 | 1,919,653 |
| Deferred tax asset (see Note 20) | 265,558 | 222,376 |
| | 27,215,393 | 13,117,932 |

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

18. CREDITORS: Amounts falling due within one year

| | 2016 £ | 2015 £ |
|---|-------------------|------------------|
| Bank overdrafts | 196,638 | - |
| Trade creditors | 180,945 | 215,237 |
| Amounts due to fellow subsidiary undertakings | 16,179,951 | 1,775,078 |
| Taxation and social security | 42,310 | 53,591 |
| Other creditors | 613,554 | - |
| Accruals and deferred income | 6,256,610 | 6,065,898 |
| | <u>23,470,008</u> | <u>8,109,804</u> |

19. FINANCIAL INSTRUMENTS

| | 2016 £ | 2015 £ |
|---|---------------------|--------------------|
| FINANCIAL ASSETS | | |
| Financial assets measured at fair value through profit or loss | 4,798,866 | 410,970 |
| Financial assets that are debt instruments measured at amortised cost | 24,680,144 | 10,871,364 |
| | <u>29,479,010</u> | <u>11,282,334</u> |
| FINANCIAL LIABILITIES | | |
| Financial liabilities measured at amortised cost | (16,557,534) | (1,990,315) |
| | <u>(16,557,534)</u> | <u>(1,990,315)</u> |

Financial assets measured at fair value through profit or loss comprise cash at bank and in hand.

Financial assets measured at amortised cost comprise trade debtors, amounts due to fellow subsidiary undertakings and other debtors.

Financial liabilities measured at amortised cost comprise bank overdrafts, trade creditors and amounts owed to fellow subsidiary undertakings.

THE CREATIVE ASSEMBLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

20. DEFERRED TAXATION

| | 2016 £ | 2015 £ |
|--|----------------|----------------|
| At beginning of year | 222,376 | 178,154 |
| Credited to the profit or loss (Note 13) | 43,182 | 44,222 |
| AT END OF YEAR | 265,558 | 222,376 |

The deferred tax asset is made up as follows:

| | 2016 £ | 2015 £ |
|-------------------------------------|----------------|----------------|
| Other short term timing differences | 265,558 | 222,376 |
| | 265,558 | 222,376 |

The expected net increase of deferred tax assets expected to occur in the next reporting period is £80,872.

21. SHARE CAPITAL

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 100 Ordinary shares of £1 each | 100 | 100 |

22. RESERVES

Share premium

The share premium account represents the premium arising on the issue of shares net of issue costs.

Profit & loss account

The profit and loss account represents accumulated comprehensive income for the year and prior periods less dividends.

THE CREATIVE ASSEMBLY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

23. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. Costs relating to this scheme are charged to the Profit and Loss Account when they are incurred. The cost for the year is £441,487 (2015 - £411,176).

24. CAPITAL AND OPERATING LEASE COMMITMENTS

(a) Capital commitments

There were no capital commitments at 31 March 2016 (2015 - £Nil).

(b) Operating lease commitments

At 31 March 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 £ | 2015 £ |
|---------------------------|----------------|------------------|
| Land and buildings | | |
| Not later than 1 year | 606,311 | 1,574,340 |
| | <u>606,311</u> | <u>1,574,340</u> |

(c) Off balance sheet arrangements

The operating leases noted above are entered into to provide normal operational and trading support for the company. They consist of property leases obligations.

25. CONTROLLING PARTY

The immediate parent company is SEGA Games Co. Ltd (formerly SEGA Corporation) and the ultimate parent company and controlling party is SEGA Sammy Holdings Inc., a company incorporated in Japan.

SEGA Sammy Holdings Inc. is the parent undertaking of the largest group of undertakings in which these financial statements are consolidated. Copies of the consolidated financial statements of SEGA Sammy Holdings Inc. may be obtained from the head office Shiodome Sumitomo Building 1-9-2, Higashi Shimbashi, Minato-Ku, Tokyo 105-0021, Japan or from the company's website on www.segasammy.co.jp.

26. FIRST TIME ADOPTION OF FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.