Company Registration No. 01905690

RARE LIMITED

Report and Financial Statements
Year ended 30 June 2016

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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2016
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RARE LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

K R Dolliver
B O Orndorff

SECRETARY

Reed Smith Corporate Services Limited

REGISTERED OFFICE

The Broadgate Tower
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20 Primrose Street
London
EC2A 2RS

BANKERS

Lloyds TSB Corporate
Butt Dyke House
33 Park Row
Nottingham
NG1 6GY

SOLICITORS

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Osborne Clarke
2 Temple Back East
Temple Quay
BS1 6EG

OFFICERS AND PROFESSIONAL ADVISERS (continued)

SOLICITORS (continued)

Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

TAX ADVISERS

KPMG LLP
Theale
Berkshire

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Deloitte House
Station Place
Cambridge
UK
CB1 2FP

RARE LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 June 2016.

BUSINESS REVIEW

The primary purpose of Rare Limited is the writing and development of video games software.

Turnover has increased by 18% during the year. During the year, product development costs relating to games in development continued to be expensed to IGDL directly instead of Rare Limited.

The Company operated as a key strategic franchisee, developing products to requirements specified by its holding company with the main aim of increasing market share and profitability for the Group.

The Company continues to perform to plan and is monitored by its holding company by way of a three year rolling plan.

The business continues to work to maximise the potential of the group's innovation in the electronic gaming sector.

RISKS AND UNCERTAINTIES

The Company's activities expose it to a number of financial risks including cash flow, credit, liquidity and market. The Company does not use derivative financial instruments for speculative purposes or to hedge these risks, as they are largely mitigated due to support provided by its parent company, Microsoft Corporation.

Cash flow risk

The Company's activities expose it primarily to the financial risk of changes in foreign currency exchange rates. Interest bearing assets are held at fixed rates to ensure certainty of cash flows.

Credit risk

The Company's principal financial assets are bank balances, trade and other debtors.

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of these cash flows.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company relies on support from its parent company, Microsoft Corporation.

Market risk

The Company's long-term success is dependent on its ability to attract and retain talented employees, to remain at the forefront of technological advances and wider long-term market trends.

The Company and Group continue to invest in attracting and retaining high-calibre individuals and developing new technology to mitigate these risks.

STRATEGY, OBJECTIVES AND BUSINESS MODEL

The Directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group as this analysis has been disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2016, which are publicly available. Rare Limited's business model is expected to continue to write and develop video games software.

Approved by the Board of Directors
and signed on behalf of the Board

K R Dolliver
Director
Date 19 December 2016

RARE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

GOING CONCERN

The directors continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoptions of the going concern basis can be found in note 1 to the financial statements.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the company are intrinsically linked to the other Microsoft group companies. These are detailed in the Strategic Report.

FUTURE PROSPECTS

The company will continue to support other group companies and in view of the current economic climate, the board is looking forward to sustaining the level of revenue and profits in the following years.

RESULTS AND DIVIDENDS

The profit for the year amounted to £944,183 (2015: loss £230,797). The directors paid an interim dividend for the year of £304,000 (2015: £572,726).

DIRECTORS

The directors who served during the year and up to the date of this report unless otherwise stated are shown on page 1.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

SUPPLIER PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

RARE LIMITED

DIRECTORS' REPORT (continued)

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms 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 he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. The company passed elective resolutions dispensing with the requirements to hold annual general meetings and to re-appoint auditors annually.

Approved by the Board of Directors
and signed on behalf of the Board

K R Dolliver

Director
Date 19 December 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework. 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RARE LIMITED

We have audited the financial statements of Rare Limited for the year ended 30 June 2016 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, United Kingdom Accounting Standards and applicable law including FRS 101 Reduced Disclosure Framework; 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 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.

Julian Rae
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, UK
Date

20 December 2016

RARE LIMITED

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME
Year ended 30 June 2016

	Note	2016 £'000	2015 restated £'000
TURNOVER	2	14,311	12,081
GROSS PROFIT		14,311	12,081
Administrative expenses		(13,286)	(11,870)
OPERATING PROFIT	4	1,025	211
Interest receivable and similar income	5	118	87
Interest payable and similar charges	6	-	(9)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,143	289
Tax on profit on ordinary activities	7	(199)	(519)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		944	(230)
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		944	(230)

All amounts derive from continuing operations.

There was no other comprehensive income or expenses other than those shown in the Profit and Loss Account and Other Comprehensive Income above.

RARE LIMITED

BALANCE SHEET
30 June 2016

	Note	2016 £'000	2015 restated £'000
FIXED ASSETS			
Tangible assets	9	3,132	2,733
		3,132	2,733
CURRENT ASSETS			
Debtors	10	13,512	14,356
Deferred tax asset	11	113	125
Corporation tax		1,186	191
		14,811	14,672
CREDITORS			
Creditors: amounts falling due within one year	12	(2,271)	(2,373)
		(2,271)	(2,373)
NET CURRENT ASSETS		12,540	12,299
TOTAL ASSETS LESS CURRENT LIABILITIES		15,672	15,032
NET ASSETS		15,672	15,032
CAPITAL AND RESERVES			
Called up share capital	13	14,767	14,767
Share premium account		8	8
Profit and loss account		897	257
SHAREHOLDERS' FUNDS		15,672	15,032

The financial statements of Rare Limited, registration number 01905690, were approved and authorised for issue by the Board of Directors on 19 December 2016.

Signed on behalf of the Board of Directors

K R Dolliver
Director

RARE LIMITED

STATEMENT OF CHANGES IN EQUITY

	Note	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 July 2014 restated		14,767	8	1,060	15,835
Total comprehensive expense for the year					
Profit or loss		-	-	(230)	(230)
Total comprehensive expense for the year		-	-	(230)	(230)
Dividends	8	-	-	(573)	(573)
Total contributions by and distributions to owners		-	-	(573)	(573)
Balance at 30 June 2015 restated		14,767	8	257	15,032

	Note	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 July 2015		14,767	8	257	15,032
Total comprehensive income for the year					
Profit or loss		-	-	944	944
Total comprehensive income for the year		-	-	944	944
Dividends	8	-	-	(304)	(304)
Total contributions by and distributions to owners		-	-	(304)	(304)
Balance at 30 June 2016		14,767	8	897	15,672

1. ACCOUNTING POLICIES

Rare Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 16.

The Company's ultimate parent undertaking, Microsoft Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of Microsoft Corporation are prepared in accordance with US generally accepted accounting principles (GAAP) and are available to the public and may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

1. ACCOUNTING POLICIES (continued)

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy (see note 16); and
- Disclosures in respect of the compensation of Key Management Personnel;

As the consolidated financial statements of Microsoft Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 July 2014 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 16.

Measurement convention

The financial statements are prepared on the historical cost basis.

The properties do not qualify to be treated as investment properties as defined by IAS40 and accordingly have not been revalued to market value but are subject to annual depreciation.

Going concern

The Company generates income predominantly from recharges made to other Microsoft group companies. Therefore the future profitability of the Company is dependent on the Company and Group's ability to continue to develop video games software and market these successfully.

The Company is showing strong net current asset and net asset positions.

There is a risk that changes in the economic climate or in the gaming technology could lead to a downturn in sales which could result in reduced demand for Rare's services. However, management are satisfied that the Group continues to perform strongly in the gaming sector and believe there will continue to be strong demand for the company's products for the foreseeable future.

The company has a letter of support that Microsoft Corporation will guarantee the solvency of the company and provide it with sufficient financing resources for 12 months from the date of signing.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Operating Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation. Provision is made for any permanent diminution in value.

Depreciation is calculated so as to write off the cost, less residual value of fixed assets on a straight-line basis over their expected useful lives at the following rates:

Fixtures, fittings and vehicles	3 - 5 years
Computer equipment	2 years
Land	Not depreciated
Buildings	15 years

Residual value is calculated on prices prevailing at the date of acquisition.

Turnover

Turnover represents royalty income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. Revenue from royalty agreements is recognised upon shipment or transfer of title to the end customer in accordance with the agreements. Revenue from the ultimate parent undertaking is recognised in the period in which the costs are incurred and once the values are approved by the Microsoft group.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Research and development expenditure

Expenditure on research is written off in the period in which it is incurred. Development costs are assessed against IAS 38 criteria and subsequently expensed or capitalised as appropriate.

Pension scheme

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Foreign currencies

Transactions in foreign currencies during the year are translated into sterling at the average rate ruling for the month of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. All exchange gains and losses are taken to the profit and loss account.

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provision of the instrument. Because of their short term nature the carrying amount of trade receivables and trade payables approximates their fair value. Trade receivables and payables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment. Cash and cash equivalents include cash at bank and in hand.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors believe there are no critical accounting judgements and no key sources of estimation uncertainty.

2. TURNOVER

Turnover represents royalty income receivable and amounts derived from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred. Analysis by geographical market:

	2016 £'000	2015 £'000
Commission within the group	14,226	11,962
Japan	85	119
	14,311	12,081

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2016 No.	2015 No.
Average number of persons employed		
Development, office and management	104	101

	2016 £'000	2015 £'000
Staff costs		
Wages and salaries	6,327	5,955
Social security costs	713	722
Pension	337	330
	7,377	7,007

Redundancy payments were made in the year amounting to £Nil (2015: £70,731).

None of the directors received any remuneration in respect of qualifying services as directors of the Company in the current period or in the prior period and they do not have any employment contracts with the Company.

4. OPERATING PROFIT

	2016 £'000	2015 £'000
Operating profit is stated after charging/(crediting)		
Rentals under operating leases		
- other operating leases	-	160
Depreciation - owned assets	814	602
Loss of disposal of fixed assets		
Foreign exchange (gain) or loss	1	147
Research and development expenditure	10,037	8,915
Auditor's remuneration:		
- audit services	29	26

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Interest receivable from fellow group undertakings	118	87

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Other interest	-	9

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
United Kingdom corporation tax	192	46
Adjustment in respect of prior years	(4)	-
Total current tax	188	46
Impact of change in tax rates	-	428
Deferred tax - current year	8	-
Deferred tax - prior year adjustment	4	(5)
Origination and reversal of timing differences	(5)	50
Total tax charge for the year	199	519

7. TAX ON PROFIT ON ORDINARY ACTIVITIES *(Continued)*

Reconciliation to total tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.00% (2015: 20.75%). The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	1,143	289
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.75%)	229	60
Effects of:		
Tax credit on ordinary activities at 20.00%	-	-
Permanent adjustments	(77)	(1)
Expenses not deductible for tax purposes	-	37
Depreciation in excess of capital allowances	35	-
Short-term timing differences	12	-
Prior year adjustment	-	423
Total tax charge	199	519

8. DIVIDENDS

	2016 £'000	2015 £'000
Interim dividend for year of 2p (2015: 4p) per ordinary share	304	573

9. TANGIBLE FIXED ASSETS

	Fixtures, fittings and vehicles £'000	Computer equipment £'000	Land & Buildings £'000	Total £'000
Cost				
At 1 July 2015	1,840	2,276	12,940	17,056
Additions	462	484	27	973
Disposals	(382)	(808)	(6)	(1,196)
Transfers	87	762	-	849
At 30 June 2016	2,007	2,714	12,961	17,682
Accumulated depreciation				
At 1 July 2015	1,464	1,415	11,444	14,323
Charge for the year	283	329	202	814
Disposals	(382)	(808)	(6)	(1,196)
Transfers	70	539	-	609
At 30 June 2016	1,435	1,475	11,640	14,550
Net book value				
At 30 June 2016	572	1,239	1,321	3,132
At 30 June 2015	376	861	1,496	2,733

10. DEBTORS

	2016 £'000	2015 £'000
Amounts owed by fellow group undertakings	12,982	12,584
Other debtors	304	256
Prepayments and accrued income	226	1,516
	13,512	14,356

Interest is received on amounts owed by group undertakings, except short-term trading balances, using a Reuter's 12-month interest rate at 0.6725% (2015: 0.6900%).

Intercompany debtors are repayable on demand. All amounts are due within one year.

11. DEFERRED TAX

The deferred tax asset consists of the following amounts:

	2016 £'000	2015 £'000
Timing differences in respect of capital allowances	113	113
Short term timing differences	-	12
	113	125

	£'000
Balance at 1 July 2015	125
Charged to the profit and loss in the year	(8)
Prior year deferred tax adjustment	(4)
Balance at 30 June 2016	113

The Finance Act 2016, which provides for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2016, to 19% effective from 1 April 2017 and 17% effective from 1 April 2020 was substantively enacted on 15 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The rate change will also impact the amount of any future cash tax payments.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Trade creditors	942	1,302
Other creditors	654	240
Other taxation and social security	188	-
Accruals	487	831
	2,271	2,373

13. CALLED UP SHARE CAPITAL

	2016 £'000	2015 £'000
Authorised, called up, allotted and fully paid		
14,767,000 ordinary shares of £1 each	14,767	14,767

14. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of the company, which is also the controlling undertaking, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Microsoft Corporation is the parent of the only group into which the results are consolidated. Copies of Microsoft Corporation's annual report are available on written request from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

15. RELATED PARTY TRANSACTIONS

In accordance with FRS 101, transactions with other group undertakings within, and investee related parties of, the Microsoft Corporation group have not been disclosed in these financial statements.

16. EXPLANATION OF TRANSITION TO FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in the preparation of an opening FRS 101 balance sheet at 1 July 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

16. EXPLANATION OF TRANSITION TO FRS 101 (continued)

Reconciliation of equity	Note	1 July 2014 UK GAAP	1 July 2014 Effect of transition to FRS 101	1 July 2014 FRS 101	30 June 2015 UK GAAP	30 June 2015 Effect of transition to FRS 101	30 June 2015 FRS 101
		£'000	£'000	£'000	£'000	£'000	£'000
FIXED ASSETS							
Tangible assets	9	2,544	-	2,544	2,733	-	2,733
		2,544	-	2,544	2,733	-	2,733
CURRENT ASSETS							
Debtors	10	15,422	-	15,422	14,356	-	14,356
Deferred tax asset	11	158	12	170	113	12	125
Corporation tax		-	-	-	191	-	191
Cash at bank and in hand		15	-	15	-	-	-
		15,595	12	15,607	14,660	12	14,672
CREDITORS							
Creditors: amounts falling due within one year	12	(2,114)	(60)	(2,174)	(2,313)	(60)	(2,373)
Corporation Tax		(14)	-	(14)	-	-	-
NET CURRENT ASSETS		13,467	(48)	13,419	12,347	(48)	12,299
TOTAL ASSETS LESS CURRENT LIABILITIES		16,011	(48)	15,963	15,080	(48)	15,032
CREDITORS: amounts falling due in more than one year							
Deferred tax liability	11	-	-	-	-	-	-
Provisions for liabilities		(128)	-	(128)	-	-	-
NET ASSETS		15,883	(48)	15,835	15,080	(48)	15,032
CAPITAL AND RESERVES							
Called up share capital		14,767	-	14,767	14,767	-	14,767
Share premium account		8	-	8	8	-	8
Profit and loss account		1,108	(48)	1,060	305	(48)	257
SHAREHOLDERS' FUNDS		15,883	(48)	15,835	15,080	(48)	15,032

NOTES TO THE RECONCILIATION OF EQUITY

In preparing its FRS 101 balance sheet, the Company has adjusted amounts relating to employee benefits in accordance with IAS19. An accrual for employee vacation has been included at 30 June 2016 based on days earned but not taken. The tax has also been recalculated to take account of these adjustments.

16. EXPLANATION OF TRANSITION TO FRS 101 (continued)

Reconciliation of loss for year ended 30 June 2015

	Note	UK GAAP	2015 Effect of transition to FRS 101	FRS 101
		£'000	£'000	£'000
TURNOVER	2	12,081	-	12,081
GROSS PROFIT		12,081	-	12,081
Administrative expenses (net)		(11,870)	-	(11,870)
OPERATING PROFIT	4	211	-	211
Interest receivable and similar income	5	87	-	87
Interest payable and similar charges	6	(9)	-	(9)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		289	-	289
Tax on profit on ordinary activities	7	(519)	-	(519)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(230)	-	(230)

NOTES TO THE RECONCILIATION OF PROFIT AND LOSS

In preparing its FRS 101 balance sheet, the Company has adjusted amounts relating to employee benefits in accordance with IAS19. An accrual for employee vacation has been included at 30 June 2016 based on days earned but not taken. The tax has also been recalculated to take account of this adjustment.