Team 17 Digital Limited

Annual Report and financial statements for the year ended 31 December 2019

Company Number: 02621976

Team 17 Digital Limited

Officers and professional advisers

Company registration number	02621976
Registered office	3 Red Hall Avenue Paragon Business Park Wakefield WF1 2UL
Directors	D Bestwick M Crawford
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square 29 Wellington Street Leeds LS1 4DL

Team 17 Digital Limited

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Strategic report
For the Year Ended 31 December 2019

Business Review
The ultimate parent company of the Group is Team17 Group Plc and KPIs are primarily reviewed for the Group as a whole. These KPIs can be found in the consolidated financial statements. The KPIs used by the Company are:

Revenue and Profit for the year
Revenue for the year ended 31 December 2019 was £61,794,000 whilst Profit was £17,889,000. This increased from £43,201,000 for the year ended 31 December 2018 and £12,159,000 comparatively.

Gross Profit %
This increased to 47.8% in the year ended 31 December 2019 from 41.2% in the year ended 31 December 2018.

Profit before tax
This increased to £20,629,000 in the year ended 31 December 2019 from £13,837,000 for the year ended 31 December 2018. As a percentage of revenue this increased to 33.4% from 32.0%.

Cash and cash equivalents
The balance of cash and cash equivalents at 31 December 2019 increased to £38,667,000 from £20,268,000 at 31 December 2018.

This performance is considered to be satisfactory.

Principal risks and uncertainties
Effectively managing our risks
Team17 Digital Limited is operating in a competitive and dynamic growth market and as such faces a number of strategic and operational risks. Senior management actively manage the Company's risk register which is regularly reviewed by the Board. The identified risks are up to date with the Company's operations and wider environment. The risks are appropriately scored, and the mitigations are evaluated and tested.

The key business and financial risks for the Company are set out below:

Strategic risks
Market growth and disruption – the Company operates in a dynamic industry that has seen consistent growth over many years and increasing levels of competition as the number of new games released grows year on year. This competition is multifaceted, ranging in size, sophistication and capability from large competitors to independent games developers who choose to self-publish. Slower than expected market growth or a failure to remain competitive would adversely affect the Company's performance.

• The Company has longevity and an entrenched position in the industry today. Its portfolio approach, rigorous greenlight process and active lifecycle management of its games provide the Company with confidence that it will continue to release popular games and optimise their commercial success.

Technological change – the industry has seen some major shifts over the past few years with the shift to digital distribution along with the development of middleware such as Unity and Unreal. Ongoing technological change in both the development and distribution of games is to be expected and the Company will need to adapt quickly to these changes in order to remain competitive.

• The Company has a track record of being one of the first to market across new platforms and distribution channels and remains platform agnostic with no dependency on any specific platform partner. The Company invests in upskilling its workforce to be at the forefront of technological developments. It is therefore able to anticipate changes in technology and delivery and be agile and adaptable in order that it can react swiftly to changes as they emerge and exploit these as opportunities.

Dependence on concentrated customer base – the Company serves a small number of customers who utilise their proprietary distribution platforms to provide the Company's games to end consumers. Any adverse changes in the status of the Company's relationship with its customers could negatively impact financial performance.

• As a result of developing a commercially successful games portfolio over a long period, the Company has developed heavily entrenched partnerships with its customers over more than 20 years that deliver commercial value on both sides. The Company will continue to invest in these relationships to ensure enduring partnerships that grow and prosper.

Strategic risks (continued)

Dependence on key titles to generate significant share of Company revenue – The Company has historically been reliant on a subset of successful titles to generate a large share of its revenues. Should the Company fail to competently manage the lifecycle of its core games this may adversely affect it financial results.

• The Company has expanded its portfolio of successful titles over recent years and a core part of its strategy is focussed on continuing to do this in the future. It has a track record of developing franchises with long lifecycles and multiple follow on titles – it's greenlight process is directed at identifying future titles with this same potential.

Operational risks

The ability to recruit and retain key and skilled personnel – The achievement of the Company's business plan is dependent on the availability of key skills and experience across its workforce. Loss of key personnel could adversely affect and impact the Company's ability to meet its strategic ambitions.

• Although there will inevitably be some level of staff turnover, the Board believes that the variety of work available for staff along with its strong collaborative environment, high quality leadership and competitive benefits packages make Team17 a place where talented individuals want to build their careers. The Company also has a proactive approach to recruitment and is particularly focussed on partnering with a number of academic institutions providing a graduate intake each year. The Company is proud of how it continues to successfully develop staff internally and also maintains a succession plan to mitigate the impact should any key personnel choose to leave. Investment has been made in the HR leadership and Talent Acquisition to support identifying, developing and retaining our staff.

IT security – The business is dependent on the security, integrity and operational performance of the system and products it offers as well as the platform partners we work with. A security breach could significantly impact the business and its ability to execute on its plans.

• The Company regularly reviews its IT and security provisions and invests to ensure they are industry leading and in line with best practice.

Intellectual property – The core assets of the Company are the intellectual property it owns and that of the third-party developers on whose behalf it publishes. Any infringement to this intellectual property by unauthorised third parties may prove damaging and adversely impact the Company's performance.

• The Company legally protects its own- and third-party partner intellectual property. It also proactively scans for any potential infringements and rigorously challenges these where appropriate.

Financial / Economic risks

Currency risk – The Company's cost base is predominantly in Pounds Sterling (GBP) whilst its revenue is generated globally, with the largest share being received in US Dollars (USD). As such there is a risk that the Company's financial performance could be adversely affected by unfavourable movements in foreign exchange.

• While the longer-term risks of transacting globally cannot be avoided, the Company continually reviews its foreign exchange exposure and where appropriate puts in place forward contracts to minimise exposure where possible. Pricing in different markets can also be flexed if required to minimise margin pressure.

Brexit – Following the exit of the European Union there continues to be significant uncertainty around the impact of the exit following the transition period but it is likely to result in change to the UK's economic relationships with other countries and may impact the Company's ability to hire and retain staff from European Union countries which may deplete the available talent resource pool.

• The Company remains proactive in monitoring legislative changes to its industry and is preparing accordingly for any detrimental impact of Brexit.

Team 17 Digital Limited
Strategic report (continued)
For the Year Ended 31 December 2019

Financial / Economic risks (continued)
COVID-19 – The Pandemic virus is impacting all companies, employees, suppliers and customers on a worldwide basis and provides significant uncertainty over the ability for companies to operate. As a result, it may impact suppliers and customers behaviours due to the isolation measures taken by individual governments as well as the disease impact of the virus on the general population. The virus impacts the Company's ability to work within the three physical offices and therefore may impact the staff's ability to develop and promote new titles as well as manage the on-going promotion of its back catalogue.

• The Company has already engaged in testing and have established "working from home" capability across all sites with secure remote access to allow the continued development and promotion of game titles. The Company will continue to monitor the situation regarding the wider impact of the virus both on internal productivity as well as the supply chain for new technology delivery and constantly changing consumer behaviour patterns.

This report was approved by the board on 12 June 2020 and signed on its behalf.

M Crawford
Director

Directors' report

For the Year Ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of the Company was that of the development and publishing of video games for the digital market.

Future developments

Trading for the period from 31 December 2019 to the date of this document has continued to be positive and profitability and cash generation remain encouraging. The Company has announced several new games for 2020. Through its greenlight process the Company continues to review and sign new titles to its games label, in addition to maximising the revenue opportunity provided by its substantial back catalogue.

Results and dividends

The profit for the year, after taxation amounted to £17,890,000 (2018: £12,159,000). The directors have not recommended the payment of a dividend (2018: £Nil).

Directors

The directors who served during the year and up to the date of signing the financial statements:

D Bestwick
M Crawford (appointed 1 May 2020)
J Jones (resigned 22 November 2019)

Directors' indemnity insurance

The Company has in place ongoing qualifying third party indemnity provisions for the benefit of the Directors that have been in place for the current and prior year and up to the date of this report.

Going concern

Management has produced forecasts that have also been sensitised to reflect plausible downside scenarios as a result of the COVID-19 pandemic and its impact on the global economy, which have been reviewed by the directors. These demonstrate the Company is forecast to generate profits and cash in the year ending 31 December 2020 and beyond and that the Company has sufficient cash reserves to enable the Company to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

As such, the directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

The directors 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.

Principal risks and uncertainties
Information regarding the risks and uncertainties of the Company are included within the Strategic Report on pages 1 to 3.

Section 172 statement
In compliance with S172 of Companies Act 2006, the Board recognises the importance of engagement with its stakeholders and the link this has to the long term success of the Company. Through the discussions, presentations and reviews held at the Board meetings throughout the year, the Board are able to ensure that the Company maintains an effective working relationship with a wide range of stakeholders as well as its shareholders. Updates from senior members of the management team provide engagement with the development programs including 3rd party development partners, access to understanding of customer and community programs and insight into the Company's gaming platform partner relationships and future initiatives alongside clear internal employee engagement programs for example via the Team17 Engagement Committee (TEC). In addition, the Executive Directors maintain a face to face dialogue with shareholders at least twice a year with external feedback shared directly with the Board. The annual strategic planning and budgeting process also provides the Board with the opportunity to understand and challenge the long term business strategy to help deliver growth and future success of the Company through its team and the products they create, develop and publish.

Disclosure of information to auditors
In so far as each of the directors is aware, the directors confirm that:

- there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors
PricewaterhouseCoopers LLP were reappointed as auditors for the year to 31 December 2020. PricewaterhouseCoopers LLP offer themselves for reappointment in accordance with the Companies Act 2006.

The financial statements on pages 8 to 24 were approved by the Board of Directors on 12 June 2020 and signed on its behalf by:

M Crawford
Director

Independent auditors' report to the members of Team 17 Digital Limited

Report on the audit of the financial statements

Opinion

In our opinion, Team 17 Digital Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 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, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Team 17 Digital Limited (continued)

Strategic report and Directors' report

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 year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Andy Ward

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
15 June 2020

Team 17 Digital Limited
Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	4	61,794	43,201
Cost of sales		(32,257)	(25,420)
Gross profit		29,537	17,781
Administrative expenses		(9,092)	(4,022)
Operating profit	5	20,445	13,759
Finance income	8	202	78
Finance costs	9	(18)	-
Profit before taxation		20,629	13,837
Taxation	10	(2,740)	(1,678)
Profit for the financial year		17,889	12,159

All amounts relate to continuing operations.

There were no other comprehensive income transactions in the year and therefore a Statement of Other Comprehensive Income has not been presented.

The notes on pages 11 to 24 form part of these financial statements.

Team 17 Digital Limited

Registered Number: 02621976

Statement of Financial Position

At 31 December 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Intangible assets	11		2,803		2,693
Tangible assets	12		1,478		640
Right-of-use assets	13		1,513		-
Deferred tax asset	18		20		-
			5,814		3,333
Current assets					
Trade and other receivables	14	16,734		13,463	
Cash and cash equivalents	15	38,667		20,268	
		55,401		33,731	
Creditors: amounts falling due within one year					
Trade and other payables	16	(14,697)		(10,214)	
Lease liabilities	17	(122)		-	
Net current assets			40,582		23,517
Total assets less current liabilities			46,396		26,850
Non-current liabilities					
Lease liabilities	17	(1,464)			
Deferred taxation	18	(272)		(68)	
Provisions		(26)		(139)	
			(1,762)		(207)
Net assets			44,634		26,643
Capital and reserves					
Called up share capital	19		-		-
Share premium account	20		6		6
Profit and loss account	20		44,628		26,637
Total Equity			44,634		26,643

The notes on pages 11 to 24 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 12 June 2020, and were signed on its behalf by:

M Crawford
Director

Team 17 Digital Limited
Statement of Changes in Equity
For the year ended 31 December 2019

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2018	-	6	14,478	14,484
Total comprehensive income for the year	-	-	12,159	12,159
At 31 December 2018	-	6	26,637	26,643
Total comprehensive income for the year	-	-	17,889	**17,889**
Share based compensation	-	-	102	**102**
At 31 December 2019	-	6	**44,628**	**44,634**

The notes on pages 11 to 24 form part of these financial statements.

1. General information

Team 17 Digital Limited is a private company limited by shares and incorporated and domiciled in England and Wales. The address of its registered office is 3 Red Hall Avenue, Paragon Business Park, Wakefield, WF1 2UL. The registered number of the Company is 02621976.

The principal activity of the company is that of the development and publishing of video games for the digital and physical market.

2. Significant Accounting Policies

Basis of preparation
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 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 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).

The financial information is presented in sterling and has been rounded to the nearest thousand (£'000).

The following principal accounting policies have been applied:

Financial reporting standard 101 – reduced disclosure exemptions
The company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - Paragraph 79(a)(iv) of IAS 1;
    - Paragraph 73(e) of IAS 16 Property, Plant and Equipment
    - Paragraph 118(e) of IAS 38 Intangible Assets;
    - Paragraph 76 and 79(d) of IAS 40 Investment Property; and
    - Paragraph 50 of IAS 41 Agriculture
- The requirements of paragraphs 10(d), 10(f), 16 38A, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statements of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

New and amended standards adopted by the Company
The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16, 'Leases';
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle as applicable and;
- Interpretation 23 'Uncertainty over Income Tax Treatments' as applicable.

At the date of authorisation of these financial statements, the Company is aware of the following revised IFRSs that have been issued but are not yet effective:

- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting

2. Significant Accounting Policies (continued)

Going concern

Management has produced forecasts that have also been sensitised to reflect plausible downside scenarios as a result of the COVID-19 pandemic and its impact on the global economy, which have been reviewed by the directors. These demonstrate the Company is forecast to generate profits and cash in the year ending 31 December 2020 and beyond and that the Company has sufficient cash reserves to enable the Company to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

As such, the directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Statement of Comprehensive Income when it is incurred.

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

- completion of the intangible asset is technically feasible so that it will be available to sell as a completed game;
- the Company intends to complete the intangible asset and has the ability to use or license it as indicated above, thus generating probable future economic benefits;
- the expenditure attributable to the intangible asset during its development, mainly salary and third-party developer costs, can be measured reliably; and
- the Company has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Until completion, the assets are subject to six monthly impairment testing. Amortisation commences upon completion of the asset. Development costs on third party games are disposed of at the date that Team17 ceases to generate revenue from the games.

The useful lives of intangible assets are assessed as either finite or indefinite and at the year end date no intangible assets are accorded an indefinite life.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Amortisation is calculated over the estimated useful lives of the assets as follows:

- Development costs – 85% reducing balance over 2 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in cost of sales.

During the previous year the Company revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach in the case of the latter (previously straight line) and retaining the former within capitalised development costs (previously derecognised when 'recovered' from the third party) and amortising in line with all other development costs. This ensures the costs continue to be written off over a two-year period but more accurately reflects the sales curve of the game. This revision in accounting estimate is accounted for as at 31 December 2019 and then prospectively. The net impact of this adjustment was £0.3m. EBITDA does not include an add back for amortisation of games ordinarily as this is booked as a cost of sale item within the accounts, however, due to their prior year and catch up nature these costs have been reflected in the presentation of adjusted EBITDA.

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

2. Significant Accounting Policies (continued)

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost includes the original price of the asset and the cost attributable to bringing the asset to its current working condition for its intended use. Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset which is reviewed on an annual basis.

Depreciation is provided on the following basis:
- Short-term leasehold property – straight line over the life of the lease
- Plant and machinery - 3 years
- Fixtures and fittings - 6 years
- Motor vehicles - 5 years

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is de-recognised.

Trade and other receivables
To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment of non-financial assets
The Company assesses every six months whether there is an indication that an asset may be impaired. If any indication exists, or when impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognised in the Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Right-of-use assets
Right-of-use assets are recognised where the Company is a lessee. The amount recognised as an addition is the total of the future lease payments discounted for the incremental borrowing rate at the date of application. Depreciation is calculated on a straight-line basis over the length of the contract taking into consideration any break clauses included within the lease.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2. Significant Accounting Policies (continued)

Financial assets

Initial recognition and measurement

In accordance with IFRS9, 'Financial Instruments' the Company has classified its financial assets as 'Financial assets at amortised cost'. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets carried at amortised cost

This category applies to trade and other receivables due from customers in the normal course of business. All amounts which are not interest bearing are stated at their recoverable amount, being invoice value less provision for any expected credit losses. These assets are held at amortised cost.

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met:
(i) the asset is held within a business model with the objective of collecting the contractual cash flows; and
(ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost comprise current trade and other receivables due from customers in the normal course of business and cash and cash equivalents.

The Company does not hold any material financial assets at fair value through other comprehensive income or at fair value through profit or loss. The Company does not hold any derivatives and does not undertake any hedging activities.

Trade receivables are initially recognised at their transaction price. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Other financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Trade and other receivables are measured at amortised cost less provision for expected credit losses.

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks, cash on hand and short-term deposits held with banks with a maturity of three months or less from inception.

Impairment of financial assets

The Company assesses on a forward looking basis, the expected credit losses associated with its financial assets measured at amortised cost. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For other financial assets at amortised cost, the Company determines whether there has been a significant increase in credit risk since initial recognition. The Company recognises twelve month expected credit losses if there has not been a significant increase in credit risk and lifetime expected credit losses if there has been a significant increase in credit risk.

Expected credit losses incorporate forward looking information, take into account the time value of money when there is a significant financing component and are based on days past due; the external credit ratings of its customers; and significant changes in the expected performance and behaviour of the borrower.

Financial assets are written off when there is no reasonable expectation of recovery. Where receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value net of directly attributable transaction costs.

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

2. Significant Accounting Policies (continued)

Financial liabilities (continued)
Subsequent measurement
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Comprehensive Income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'passthrough' arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if there is a current enforceable legal right to offset the recognised amounts and intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured using the directors' best estimate of the expenditure required to settle the obligation at the period end date.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Operating segments
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Company supplies a single product range into a single marketplace and so there is considered to be only one segment. On transition to IFRS the chief operating decision maker has begun to utilise IFRS based measures to monitor performance. No differences exist between the basis of preparation of the performance measures used by the Board of Directors and the figures in the Company financial information.

Foreign currency
Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the Statement of Comprehensive Income.

Revenue recognition
Revenue includes income from the release of full games and early access versions of self-published games. The Company designs, produces and sells video games based on its own and third party intellectual property to digital and physical distributors, who are considered to be the Company's customers when assessing revenue recognition. The majority of the Company's revenue is in the form of royalties received from third party distributors who have a license to sell the Company's games to consumers. Revenue is recognised at the point at which the distributor sells the content to the consumer.

2. Significant Accounting Policies (continued)

Revenue recognition (continued)
The transaction price is the amount the Company is entitled to in accordance with the contractual arrangement with the third party.

The Company also receives revenue where the Company agrees to make a game available to a third party platform for their customers to download for an agreed period of time for a fixed fee and with minimal future performance obligations required by the Company. These contracts are determined as right to use contracts in accordance with IFRS 15 and the fixed fee is recognised on the date the game is first made available on the third party platform. An additional revenue earned based on volume of sales in these contracts are recognised as usage-based royalties when usage occurs. If any contract includes a break clause then the revenue recognised excludes the amount that would be foregone if the break clause was exercised. The remaining revenue is recognised once the break clause has expired.

Operating lease agreements
For the year ended 31 December 2019, IFRS 16 'Leases' replaced IAS 17 'Leases'. The new standard has been applied using the modified retrospective approach and therefore does not require a restatement to the balance sheet in 2018.

IAS 17 'Leases' – Applied until 31 December 2018
Rentals applicable to operating leases, where substantially all of the risks and benefits or ownership remains with the lessor, are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease. Lease incentives are spread over the period of the lease on a straight line basis.

IFRS 16 'Leases' – Applied from 1 January 2019
This new standard requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts. The value of the assets and liabilities recognised at application date is calculated from the total of the future lease payments discounted for the incremental borrowing rate at the date of application. Interest on the lease liability is calculated on a monthly basis and recognised in the Statement of Comprehensive Income. The right-of-use assets created are depreciated over the length of the lease and the depreciation is included in the Statement of Comprehensive Income. Lease incentives affect the total of the future lease payments and therefore are included within the right-of-use assets and lease liabilities recognised at the start of the lease.

The incremental borrowing rate is decided on through discussion with our bankers and comparison to other businesses in the industry.

The Company used the modified retrospective approach which applies the cumulative effect of the policy adoption from 1 January 2019. Comparative figures for the year ended 31 December 2018 are not restated to reflect the adoption of IFRS 16.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation for Determining whether an Arrangement contains a Lease.

At the application of IFRS 16 'Leases', the Company is required to calculate the initial assets and liabilities of leases discounted by the incremental borrowing rate. Since the IPO, as the Company does not have any interest-bearing debt, management have performed market research on rates offered to similar businesses in the industry and applied an incremental borrowing rate between 2.5% – 3.5% dependent on the length and type of asset being leased.

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. Significant Accounting Policies (continued)

Interest income
Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Share based compensation
The Company has granted share options to various employees and directors. These shares are separated into the following types of schemes:

- Directors LTIPs – These include performance criteria and the fair value of these options has been estimated using a Monte Carlo Simulation model to estimate the fair value of the awards.
- Employee share options – The only performance criteria included on these options is for the employee to remain in the company for a specified period of time. The fair value has been estimated based on the share price at grant date.

The fair value of these options are recognised as an expense in the Statement of Comprehensive Income over the vesting period of the options with a corresponding credit included within retained earnings. Employers national insurance due on the share options are included within the Statement of Comprehensive Income calculated at13.8% of the share options charge whilst the credit is included within trade and other payables. The accumulated share option value is adjusted for any lapsed share options on a monthly basis.

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 other creditors as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Taxation
Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the period end date.

Video Games Tax Relief ('VGTR')
VGTR tax credits are included within current tax. They are only recognised where the Directors believe that a tax credit will be recoverable. This is based upon the Company's experience of obtaining the required certification to facilitate its titles in development to qualify for VGTR and success of previous submitted claims. An estimate is made throughout the year, and a tax receivable recognised, based on qualifying expenditure during the year.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each period end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Key sources of estimation, uncertainty and significant accounting judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Development costs capitalisation (judgement)

The Company invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done together with any agreements made with the rights holders of a specific game. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis and a review for indicators of impairment is completed by product at each period-end date. The net book values of the development intangible assets including rights acquired at 31 December 2019 are £2,803,000 (2018: £2,693,000). Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

Useful life of intangible assets (estimate)

Amortisation of intangible assets is calculated over the useful economic lives of the assets. The estimates of useful economic lives are reviewed at least annually for any changes to this estimate. There were no changes required to estimate useful economic lives during the year ended 31 December 2019.

The useful life of brands was initially estimated as between 10 and 13 years after looking at expected future revenues from titles utilising those brands along with future releases planned.

The estimates of useful life for capitalised development costs are included as two years. The amortisation is also weighted heavily towards the first year to reflect the sales curve of titles. This sales curve has been modelled after looking at all titles in the Company's portfolio and adjusting for outliers.

Goodwill impairment

The carrying value of goodwill is reviewed for impairment at least every six months. In determining whether goodwill is impaired an estimation of the fair value and/or the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Company's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU. The calculation of fair value requires estimates of the market value of the Company by reference to existing market data for the Company or for similar entities.

4. Revenue

All revenue was generated by the sale of goods.

The Company does not provide any information on the geographical location of sales as the majority of revenue is through third party distribution platforms which are responsible for the sales data of consumers.

Whilst the chief operating decision maker considers there to be only one segment, the Company's portfolio of games is split between those based on IP owned by the Company and IP owned by a third party and hence to aid the readers understanding of our results, the split of revenue from these two categories are shown below:

	2019 £'000	2018 £'000
Internal IP	10,312	11,101
Third party	51,482	32,100
	61,794	43,201

5. Operating profit

The operating profit is stated after charging/(crediting):	2019 £'000	2018 £'000
Amortisation of development costs	3,105	4,319
Depreciation of tangible assets	355	305
Depreciation of right-of-use assets	57	-
Loss/(Profit) on disposal of fixed assets	30	(2)
Loss/(Profit) on foreign exchange	2	(155)
Auditors' remuneration	-	-

Auditors' remuneration of £77,000 (2018: £73,000) was paid by the ultimate parent Company, Team 17 Group Plc.

6. Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, was as follows:

	2019 No.	2018 No.
Staff	173	146

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	6,140	4,944
Social security costs	645	383
Other pension costs	255	126
Share based compensation	102	319
	7,142	5,772

7. Directors' remuneration

	2019 £'000	2018 £'000
Directors' emoluments	-	-
Company contributions to money purchase scheme	-	-
	-	-

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

The highest paid director received remuneration of £Nil (2018 - £Nil). The directors were remunerated by Team17 Group Plc, the ultimate parent company of the Group. The Company pays a management charge to Team17 Group Plc which includes an amount recharged for directors services.

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

8. Finance income

	2019 £'000	2018 £'000
Other interest receivable	202	78

9. Finance costs

	2019 £'000	2018 £'000
Lease liability interest payable	17	-
Other interest payable	1	-
	18	-

10. Taxation

	2019 £'000	2018 £'000
Corporation tax		
Current tax on profits for the year	3,833	2,876
Video Games Tax Relief claim	(423)	(444)
Adjustments in respect of prior period:		
Video Games Tax Relief claim	(133)	(391)
Other	(721)	(171)
	2,556	1,870
Deferred tax		
Origination and reversal of temporary differences	184	(192)
Total tax charge	2,740	1,678

The other adjustments in respect of prior period relates to additional tax credits claimed on finalisation of the tax computations. The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before taxation	20,630	13,837
Taxation using the UK Corporation Tax rate of 19% (2018: 19.00%)	3,920	2,629
Effects of:		
Expenses not deductible for tax purposes	97	695
Video Games Tax Relief	(423)	(444)
Group relief	-	(640)
Adjustments to tax charge in respect of prior periods	(854)	(562)
Total tax charge for the year	2,740	1,678

As a result of changes to the UK corporation tax rates that were substantively enacted as part of the Finance Bill 2016 on 6 September 2016 the main rate will reduce to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

11. Intangible assets

	Development £'000
Cost	
At 1 January 2019	10,615
Additions	3,215
At 31 December 2019	13,830
Accumulated amortisation	
At 1 January 2019	7,922
Charge for the year	3,105
At 31 December 2019	11,027
Net book value	
At 31 December 2019	2,803
At 31 December 2018	2,693

Revision of accounting estimate 2018

During 2018 the Company has revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach over 2 years in the case of the latter (previously straight line over 2 years) and retaining the former within capitalised development costs (previously derecognised when recovered from the third party) and amortising over the useful economic life of the game in line with all other costs. The impact of this revision of accounting estimate was an increase to capitalised costs of £1,720,000 and a corresponding increase in amortisation of £1,983,000 giving an overall reduction in net book value of £263,000. This revision in this accounting estimate was accounted for as at 31 December 2018 and then prospectively.

12. Tangible assets

	Short-term leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2019	125	961	182	132	1,400
Additions	829	246	-	190	1,265
Disposals	(88)	(58)	(81)	(76)	(303)
At 31 December 2019	866	1,149	101	246	2,362
Accumulated depreciation					
At 1 January 2019	53	593	53	61	760
Charge for the year	56	245	31	23	355
Disposals	(88)	(58)	(35)	(50)	(231)
At 31 December 2019	21	780	49	34	884
Net book value					
At 31 December 2019	845	369	52	212	1,478
At 31 December 2018	72	368	129	71	640

13. Right-of-use assets

Prior to the Company's adoption of IFRS 16 on 1 January 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. Under IFRS 16, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company.

This led to the capitalisation of £1,570,000 as right-of-use assets and corresponding lease liabilities of £1,592,000 split between current and non-current liabilities. See note 17 for the details of the lease liability.

	Buildings £'000	Total £'000
Cost		
Adoption of IFRS 16 on 1 January 2019	1,570	1,570
Additions		
At 31 December 2019	1,570	1,570
Accumulated depreciation		
Charge for the year	57	57
At 31 December 2019	57	57
Net carrying amount		
At 31 December 2019	1,513	1,513

14. Trade and other receivables

Amounts falling due within one year

	2019 £'000	2018 £'000
Trade receivables	1,366	224
Accrued income	8,926	6,516
Amounts owed by group undertakings	5,384	5,319
Other receivables	698	948
Prepayments	360	456
	16,734	13,463

Intercompany balances are unsecured, repayable on demand and are not interest bearing.

15. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	127	328
Amounts owed to group undertakings	4,597	2,762
Corporation tax	1,160	1,023
Other taxation and social security	166	114
Other payables	699	363
Accruals and deferred income	7,948	5,624
	14,697	10,214

Intercompany balances are unsecured, payable on demand and are not interest bearing.

16. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	37,887	20,268
Cash equivalents	780	-
	38,667	20,268

The cash equivalents balance of £780,000 (2018: £Nil) represents an amount held by the Company's solicitors for the purchase of the shares of Yippee Entertainment Limited by Team17 Group Plc on 1 January 2020.

17. Lease liabilities

	2019 £'000	2018 £'000
Lease liabilities:		
Current	122	-
Non-current	1,464	-
	1,586	-

Interest expense during the year on the above lease liabilities included in finance costs was £17,000 (2018: £Nil). The total cash outflow for leases during the year was £23,000 (2018: £73,000) net of a £48,000 (2018: £Nil) lease incentive received.

In applying IFRS 16 Leases, the practical expedient to exclude operating leases with a remaining lease term of less than 12 months was used. The total cost of these excluded leases during the year totalled £54,000.

18. Deferred taxation

Recognised deferred tax asset	Other short-term timing differences £'000	Total £'000
At 1 January 2018	-	-
Charged to profit or loss	-	-
At 31 December 2018	-	-
Credited to profit or loss	20	20
At 31 December 2019	20	20

18. Deferred taxation (continued)

Recognised deferred tax liabilities	Accelerated depreciation for tax purposes £'000	Other short-term timing differences £'000	Arising on intangible fixed assets £'000	Total £'000
At 1 January 2018	53	207	-	260
Charged/(Credited) to profit or loss	1	(193)	-	(192)
At 31 December 2018	54	14	-	68
Charged/(Credited) to profit or loss	(7)	(13)	224	204
At 31 December 2019	47	1	224	272

19. Called up share capital

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid		
120,000 (2018: 120,000) Ordinary shares of £0.001 each	-	-

20. Reserves

Share premium account

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Profit and loss account

Includes all current and prior year retained profits and losses.

21. Share based compensation

The following share schemes have been awarded to employees of the Company but not yet vested at 31 December 2019:

Share scheme name	Award date	Vesting date	Maximum number of share options outstanding	Exercise price per share option
Free shares	4 April 2019	4 April 2022	114,750	£Nil
Senior management share options	8 April 2019	8 April 2022	31,368	£Nil
Senior management share options	18 December 2019	18 December 2022	20,291	£Nil

These schemes are equity settled and provide options over shares in the Company's Ultimate parent company, Team17 Group Plc. The movement in the fair value of each share option is included within either Cost of sales or Administrative expenses (depending on which employees the shares were issued to) in the Statement of Comprehensive Income and included within Retained earnings in the Statement of Financial Position. In addition employers national insurance accrued at 13.8% on the share options value is included within either cost of sales or administrative expenses and accruals in the Statement of Financial Position.

21. Share based compensation (continued)

Included within the financial statements is the following:

	2019 £'000	2018 £'000
Statement of Comprehensive Income		
Share options charge	102	-
Employers national insurance	14	-
	116	

	2019 £'000	2018 £'000
Statement of Financial Position		
Accruals (cumulative balance)	14	-
Retained Earnings (cumulative balance)	102	-
	116	-

22. Commitments under operating leases

Leases previously disclosed as commitments have now been capitalised under IFRS 16 Leases. The following table reconciles the opening liability to the commitments disclosed in the 2018 financial statements:

	£'000
Operating lease commitments disclosed as at 31 December 2018	205
Less: Short term leases & other adjustments	(63)
Later than 5 years	142
Discounted using lessee's incremental borrowing rate as at the date of initial application	125
Lease liabilities recognised at 1 January 2019	125

23. Related party transactions

As permitted by FRS 101 related party transactions with wholly owned members of the Team17 Group Plc group have not been disclosed.

24. Controlling party

The intermediate parent undertaking is Team 17 Software Limited. The ultimate parent undertaking at 31 December 2019 was Team17 Group Plc by virtue of its holding of 100% of the share capital of the company.

At 31 December 2019 there was not considered to be a single ultimate controlling party of Team 17 Group Plc.

The largest and smallest group of companies for which consolidated financial statements, including the Company, have been prepared as at 31 December 2019 is the group headed by Team17 Group Plc. These financial statements are publicly available from 3 Red Hall Avenue, Paragon Business Park, Wakefield, WF1 2UL.

25. Post Statement of Financial Position events

In early 2020, the existence of new coronavirus, known as COVID-19, was confirmed and since this time COVID-19 has spread across a significant number of countries. COVID-19 has caused disruption to businesses and economic activity which has been reflected in the fluctuations in the global stock markets. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.