

Company Registration No. 07057499 (England and Wales)

Playground Games Limited

**Annual report and financial statements
for the year ended 31 December 2020**

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Playground Games Limited

Company information

Directors	Benjamin Orndorff Keith Dolliver
Secretary	Reed Smith Corporate Services Limited
Company number	07057499
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London United Kingdom EC2A 2RS
Independent auditor	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading RG1 3BD United Kingdom

Playground Games Limited

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Playground Games Limited

Strategic report

For the year ended 31 December 2020

The directors present the strategic report for the year ended 31 December 2020.

Fair review of the business

The primary purpose of Playground Games Limited "the Company" is the writing and development of video games software.

In the year the Company made a loss of £497,913 (2019 - profit of £728,133). Operating profit has moved from a profit of £771k, to a loss of £684k in the year due to application of the recharges of expenses and associated turnover to its subsidiary company, PG Game Development Limited. As part of this a true up charge relating to 2019 was taken in 2020. The Company is expected to show a nominal profit margin under the recharge model in the year ending 31 December 2021 and in future years. The Playground group as a whole continues to be profitable.

In the year ended 31 December 2020 the Company continued development on Forza Horizon 4 with monthly content releases, and this continues to be very successful. The Company also continued development on Fable and Forza Horizon 5.

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

Key performance indicators

The Directors do not monitor the performance of the company at a statutory level through the use of key performance indicators (KPI's). The Microsoft group manages its business and manages the delivery of its strategic objectives through the application of KPI's at a business group level.

Working Capital

The Company has a strong working capital position. The directors continue to monitor this closely to ensure that the maximum advantage is made of the funds available.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks including 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.

Credit risk

The Company's principal financial assets are bank balances and other debtors. The Company's credit risk is primarily attributable to its intercompany debtors; this is not considered a significant risk as the performance of other group companies continues to be strong.

Playground Games Limited

Strategic report (continued)

For the year ended 31 December 2020

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 business has considered the future effects of Brexit. These are likely limited to creating some friction in engaging new staff from the EU and an increase in associated costs to hire EU staff members.

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

COVID-19

The beginning of 2020 saw a major outbreak of coronavirus (COVID-19) which has been declared by the World Health Organisation to be a pandemic. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local crisis management teams have been put in place by Microsoft to monitor the COVID-19 situation closely and to anticipate and react to the evolving circumstances. To protect the health and well-being of our employees, suppliers, and customers, Microsoft have made substantial modifications to employee travel policies, implemented retail store and office closures as employees are advised to work from home, and cancelled or shifted our conferences and other marketing events to virtual-only.

The extent to which the COVID-19 pandemic impacts Microsoft going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on the economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer, business, and government spending on technology as well as customers' ability to pay for our products and services on an ongoing basis. This uncertainty also affects management's accounting estimates and assumptions, which could result in greater variability in a variety of areas that depend on these estimates and assumptions, including investments, receivables, and forward-looking guidance.

Management have evaluated the financial impact of COVID-19 on the entity operations, solvency and liquidity and to date no significant impacts as a result of COVID-19 have been identified to cast doubt on the entity's ability to continue as a going concern. Management acknowledge that these uncertain times can have a huge impact on people and organisation and keeps monitoring these uncertainties closely. Measures to contain the virus that impact us, our partners, distributors, and suppliers may further intensify these impacts and other risks. Any of these may adversely impact Microsoft's ability to:

- Maintain our operations infrastructure, including the reliability and adequate capacity of cloud services.
- Satisfy our contractual and regulatory compliance obligations as we adapt to changing usage patterns, such as through datacentre load balancing.
- Ensure a high-quality and consistent supply chain and manufacturing operations for our hardware devices and datacentre operations.
- Effectively manage our international operations through changes in trade practices and policies.

Playground Games Limited

Strategic report (continued)

For the year ended 31 December 2020

- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

We may incur increased costs to effectively manage these aspects of our business. If we are unsuccessful it may adversely impact our revenues, cash flows, market share growth, and reputation.

Strategy, objectives and business model

The directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group because this analysis will be disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2020, which are publicly available.

Promoting the success of the company

- Hire and deploy people where we most need them.
- Sustain the effectiveness and productivity of our operations including our sales, marketing, engineering, and distribution functions.

We may incur increased costs to effectively manage these aspects of our business. If we are unsuccessful it may adversely impact our revenues, cash flows, market share growth, and reputation.

Approved for issue by the board of directors

Benjamin Orndorff

Director

Date: 24 Sept 2021

Playground Games Limited

Directors' report

For the year ended 31 December 2020

The directors present their Annual Report and audited financial statements for the year ended 31 December 2020.

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

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

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

Results and dividends

The results for the year are set out on page 11.

No ordinary dividends were paid (2019: Enil). The directors do not recommend payment of a final dividend.

Future Developments

The Company will continue with the principal activities as outlined in the strategic report. The Company continues to do business with other group companies and the board is looking forward to sustaining the level of revenue and profits in the following years.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Benjamin Orndorff
Keith Dolliver

Playground Games Limited

Directors' report (continued)

For the year ended 31 December 2020

Going Concern

To date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the Company's ability to continue operating as a going concern in the foreseeable future.

The Company runs on a guaranteed earnings commission model with Microsoft, however is reliant on Microsoft as a sole customer.

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 at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and Microsoft Corporation 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.

Directors' insurance

The Company will continue with the principal activities as outlined in the strategic report. The Company continues to do business with other group companies and the board is looking forward to sustaining the level of revenue and profits in the following years.

Financial instruments

It is a primary objective and policy of the directors of the Company to identify financial risks and investigate suitable procedures to minimise the perceived risk. In the video games software industry there is a financial risk inherent in the costs incurred in producing software prior to sales. The directors have put in place safeguards to minimise the Company's exposure to risk.

Disabled persons

Employment policies are designed to provide equal opportunity, irrespective of age, sex, religion, race or marital status. Applications for employment by disabled persons are given full and fair consideration and, where practicable, provision is made for special needs. The Company applies the same criteria to disabled employees for training, career development and promotion as to any other employee. If existing employees become disabled, every effort is made to ensure their continued employment.

Employee involvement

It is the Company's policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing company performance.

Encouragement is given to employees to contribute towards the Company's financial performance by means of an annual bonus scheme for certain employees.

Playground Games Limited

Directors' report (continued)
For the year ended 31 December 2020

Auditor.

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

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

The auditor Deloitte LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved for Issue by the board of directors

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Benjamin Orndoff
Director

Date: 24 Sept 2021

Playground Games Limited

Independent auditor's report

To the members of Playground Games Limited

Opinion

In our opinion the financial statements of Playground Games Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Playground Games Limited

Independent auditor's report (continued)

To the members of Playground Games Limited

Other information

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

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Playground Games Limited

Independent auditor's report (continued)
To the members of Playground Games Limited

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Playground Games Limited

Independent auditor's report (continued)
To the members of Playground Games Limited

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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



Julian Rae (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

24 September 2021

Playground Games Limited

**Statement of comprehensive income
For the year ended 31 December 2020**

		Year ended 31 December 2020	Year ended 31 December 2019
	Notes	£	£
Turnover	4	27,253,046	24,443,740
Cost of sales		(19,024,891)	(15,188,248)
Gross profit		8,228,155	9,255,492
Administrative expenses		(8,911,852)	(8,483,613)
Operating (loss)/profit	5	(683,697)	771,879
Interest receivable and similar income	8	63,634	205,639
Interest payable and similar expenses	9		(38,731)
(Loss)/profit before taxation		(620,063)	938,787
Tax on (loss)/profit	10	122,150	(210,654)
(Loss)/profit for the financial year		(497,913)	728,133

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There was no other comprehensive income for 2020 (2019: ENIL).

The notes on pages 13 to 25 form part of these financial statements.

Playground Games Limited

Balance sheet

As at 31 December 2020

	Notes	2020 £	£	2019 £	£
Fixed assets					
Tangible assets	11	6,350,460		6,476,926	
Investments	12		1		1
		<u>6,350,461</u>		<u>6,476,927</u>	
Current assets					
Debtors: amounts falling due within one year	14	26,390,032		25,762,828	
Cash at bank and in hand		7,454		963,331	
		<u>26,397,486</u>		<u>26,726,159</u>	
Creditors: amounts falling due within one year	15	(2,936,473)		(2,893,699)	
Net current assets		<u>23,461,013</u>		<u>23,832,460</u>	
Total assets less current liabilities		<u>29,811,474</u>		<u>30,309,387</u>	
Capital and reserves					
Called up share capital	17	14,280		14,280	
Profit and loss account		29,797,194		30,295,107	
Total equity		<u>29,811,474</u>		<u>30,309,387</u>	

The notes on pages 13 to 25 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 24 Sept 2021 and are signed on its behalf by:

Benjamin Orndorff
Director

Company Registration No. 07057499

Playground Games Limited

**Statement of changes in equity
For the year ended 31 December 2020**

	Share capital	Profit and loss reserves	Total
	£	£	£
At 1 January 2019	14,280	29,566,974	29,581,254
Profit and total comprehensive income for the year	-	728,133	728,133
At 31 December 2019	14,280	30,295,107	30,309,387
Loss and total comprehensive expense for the period	-	(497,913)	(497,913)
At 31 December 2020	14,280	29,797,194	29,811,474

The notes on pages 13 to 25 form part of these financial statements.

Playground Games Limited

Notes to the financial statements For the year ended 31 December 2020

1 General information

Playground Games Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The registered office is The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS. The principal activity of the company is the writing and development of video games software.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis.

These financial statements have been prepared in compliance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The financial statements are prepared in sterling, which is the functional currency of the entity. Monetary amounts in these financial statements are rounded to the nearest £.

2.2 Consolidation

The Company has taken advantage of the exemption from preparing consolidated financial statements contained in Section 401 of the Companies Act 2006 on the basis that the company and its immediate parent undertaking are wholly owned subsidiaries of an ultimate parent undertaking that is not established under the law of an EEA state.

The information is included in the consolidated financial statements of Microsoft as at 30 June 2020 and these financial statements may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

The Company has taken advantage of the disclosure exemption from preparing a Statement of Cash Flows contained in FRS 102 Section 7.

2.3 Going concern

To date no significant negative impacts as a result of COVID-19 have been identified to cast doubt on the Company's ability to continue operating as a going concern in the foreseeable future.

The Company runs on a guaranteed earnings commission model with Microsoft, however is reliant on Microsoft as a sole customer.

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 at least 12 months from the date of signing.

The directors have a reasonable expectation that the Company and Microsoft Corporation 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.

2 Accounting policies (continued)

2.4 Turnover

Turnover represents commission received from the ultimate parent undertaking in the United States based on a mark-up on total costs incurred and commission received from the subsidiary company based on recharges of costs incurred. Revenue is recognised in the period in which the costs are incurred and once the values are approved by Microsoft group.

2.5 Taxation

The tax expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case tax is recognised in other comprehensive income or directly in capital and reserves, respectively.

Current tax

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of timing difference.

2.6 Foreign currencies

Foreign currency transactions are initially recorded in functional currency, applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

2.7 Operating leases

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

2.8 Tangible fixed assets

Tangible fixed assets are initially recorded at cost and subsequently stated at cost less any accumulated depreciation and impairment losses.

Playground Games Limited

**Notes to the financial statements (continued)
For the year ended 31 December 2020**

2 Accounting policies (continued)

Depreciation

Depreciation is calculated so as to write off the cost or valuation of assets less their residual value over the useful economic life of that asset as follows:

Short-term leasehold property	straight line over the life of the lease
Fixtures and fittings	20% straight line
Computer equipment	33% straight line

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

2.9 Fixed asset investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

2.10 Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event; it is probable that the entity will be required to transfer economic benefits in a settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in the profit or loss unless the provision was originally recognised as a part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised in the finance costs in the profit or loss in the period it arises.

2.11 Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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

2 Accounting policies (continued)

2.12 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements as permitted by the FRS 102 'The financial Reporting Standard applicable in the UK and Republic of Ireland':

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b), 12.29A, and 12.30;
- the requirements of Section 26 Share-based payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- the requirements of Section 33 'Related Party Disclosures': paragraph 33.7.

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Microsoft Corporation as at 30 June 2020. These financial statements are available to the public and can be obtained as set out in note 20.

2.13 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

2.14 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 receivables and payables approximates their fair value. Third-party and intercompany payables and receivables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

2 Accounting policies (continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

2 Accounting policies (continued)

2.15 Finance income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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 directors do not consider there to be any estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

4 Turnover and other revenue

	2020	2019
	£	£
Turnover analysed by class of business		
Commission received	27,253,046	24,443,740

5 Operating (loss)/profit

	2020	2019
	£	£
Operating (loss)/profit for the period is stated after charging:		
Depreciation of tangible fixed assets	2,827,118	2,119,711
Operating lease rentals	796,851	860,290
Fees payable for the audit of the financial statements	59,436	59,430

No non-audit services were provided by the company's auditors.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

6. Staff costs

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

	2020 £	2019 £
Wages and salaries	17,503,762	14,307,587
Social security costs	2,239,179	1,747,573
Pension costs	986,440	855,083
	<u>20,729,381</u>	<u>16,910,243</u>

The average number of persons employed by the Company during the year was as follows:

	2020 Number	2019 Number
Operational staff	244	186
	<u>244</u>	<u>186</u>

7. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was £nil - (2019: £nil)

The highest paid director received remuneration of £nil (2019 - £nil).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2019 - £nil)

8. Other interest receivable and similar income

	2020 £	2019 £
Intercompany interest receivable	59,912	205,639
Other interest receivable	3,722	-
	<u>63,634</u>	<u>205,639</u>

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

9 Interest payable and similar expenses

	2020	2019
	£	£
Finance leases and hire purchase contracts	-	1,436
Other interest payable	-	37,295
	<u>-</u>	<u>38,731</u>

10 Taxation

	2020	2019
	£	£
Current tax		
UK corporation tax on profits for the current period	136,625	338,552
Adjustments in respect of prior periods	-	(2,046)
Total current tax	<u>136,625</u>	<u>336,506</u>
Deferred tax		
Origination and reversal of timing differences	(258,775)	(140,658)
Changes in tax rates	-	14,806
Total deferred tax	<u>(258,775)</u>	<u>(125,852)</u>
Total tax (credit)/charge	<u>(122,150)</u>	<u>210,654</u>

A deferred tax asset of £417k has been recognised at 31 December 2020 (2019: deferred tax asset of £158k). This asset, which relates to other timing differences and R&D has been recognised in the financial statements on the basis that the Directors are of the opinion, based on recent and forecast trading, that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of these timing differences can be deducted within 12 months of the year end.

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 October 2020 continue to be measured at 19%.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

10 Taxation

2020 **2019**
£ £ (continued)

The actual (credit)/charge for the year can be reconciled to the expected (credit)/charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020	2019
	£	£
(Loss)/profit before taxation	<u>(620,063)</u>	<u>938,787</u>
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(117,812)	178,370
Tax effect of expenses that are not deductible in determining taxable profit	14,277	19,525
Adjustments in respect of prior years	-	(2,046)
Tax rate changes	(18,614)	14,806
Rounding	(1)	(1)
Taxation (credit)/charge for the period	<u>(122,150)</u>	<u>210,654</u>

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

11 Tangible fixed assets

	Short-term leasehold property	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2020	4,146,521	615,556	6,781,554	11,543,631
Additions	375,220	44,452	2,280,980	2,700,652
At 31 December 2020	4,521,741	660,008	9,062,534	14,244,283
Depreciation and impairment				
At 1 January 2020	1,184,506	237,220	3,644,979	5,066,705
Depreciation charged in the year	792,618	103,627	1,930,873	2,827,118
At 31 December 2020	1,977,124	340,847	5,575,852	7,893,823
Carrying amount				
At 31 December 2020	2,544,617	319,161	3,486,682	6,350,460
At 31 December 2019	2,962,015	378,336	3,136,575	6,476,926

12 Fixed asset investments

	Trade investments
	£
Cost or valuation	
At 1 January 2020	1
At 31 December 2020	1
At 31 December 2019	1

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

13 Investment in group undertakings

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name	Class of shares held	% Held Direct	Address
PG Game Development Limited	Ordinary	100	The Broadgate Tower, Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS

The nature of business for PG Game Development Limited is development of video games.

14 Debtors

	2020 £	2019 £
Amounts owed by group undertakings	23,817,542	24,029,520
Other debtors	179,342	205,562
Prepayments and accrued income	865,746	753,082
Corporation taxation	1,110,404	583,672
Deferred taxation	416,998	158,223
	<u>26,390,032</u>	<u>25,730,059</u>

Amounts owed by group undertakings is a loan to Microsoft Corporation, the ultimate parent company. This loan is repayable on demand and carries a variable interest rate. All amounts are due within one year and are unsecured.

Playground Games Limited

Notes to the financial statements (continued)
For the year ended 31 December 2020

15 Creditors: amounts falling due within one year

	2020	2019
	£	£
Trade creditors	428,592	394,116
Amounts owed to group undertakings	208,058	203,770
Taxation and social security	381,850	288,142
Other creditors	183,317	83,522
Accruals and deferred income	1,734,656	1,924,149
	<u>2,936,473</u>	<u>2,893,699</u>

The intercompany loan is held with PG Game Development Limited, a wholly owned subsidiary. This loan is non-interest bearing and is repayable on demand. All amounts are due within one year and are unsecured.

16 Deferred taxation

	2020	2019
	£	£
At beginning of year	158,223	32,371
Credit to profit or loss	258,775	125,852
	<u>416,998</u>	<u>158,223</u>
At end of year	<u>416,998</u>	<u>158,223</u>

	2020	2019
	£	£
Accelerated capital allowances	395,838	144,237
Short term timing differences - trading	21,160	13,986
	<u>416,998</u>	<u>158,223</u>

Playground Games Limited

**Notes to the financial statements (continued)
For the year ended 31 December 2020**

17 Share capital

	2020	2019
	£	£
Ordinary share capital		
Issued and fully paid		
14,280 ordinary shares of £1 each (2019: 14,280)	14,280	14,280

18 Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2020	2019
	£	£
Not later than 1 year	756,334	767,285
Later than 1 year and not later than 5 years	2,946,883	2,693,030
Later than 5 years	1,260,300	1,837,980
	4,963,517	5,298,295

19 Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £986,440 (2019: £885,082).

20 Ultimate controlling party

Microsoft Corporation, a company incorporated in the state of Washington in the United States of America is the ultimate controlling party and 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 at their registered address Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

The immediate parent undertaking is Playground Games Holdings Limited.