Annual Report and Accounts

for the Year Ended 31 December 2022

for

Sumo Group Limited (formerly
Sumo Group Plc)

Registered no: 11071913

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Sumo Group Limited (formerly Sumo Group plc)

Group Information
for the year ended 31 December 2022

DIRECTORS:	C Cavers P R Porter A M D Stewart E T H Chan Y Li M Liu C Ning
SECRETARY:	T Repa-Davies
REGISTERED OFFICE:	32 Jessops Riverside Brightside Lane Sheffield South Yorkshire S9 2RX
REGISTERED NUMBER:	11071913 (England and Wales)
AUDITOR:	Ernst & Young LLP 1 Bridgewater Place 1 Water Lane Holbeck Leeds LS11 5QR

Sumo Group Limited (formerly Sumo Group plc)

Strategic Report

for the year ended 31 December 2022

The directors present their strategic report and the financial statements of Sumo Group Limited ("Sumo Group" or "the Group") for the year ended 31 December 2022. On 28 January 2022 the Group changed its name from Sumo Group plc.

PRINCIPAL ACTIVITY

Sumo Group's businesses provide acclaimed development, design and publishing services to the video games and entertainment industry, with 18 studios in five countries.

BUSINESS REVIEW

On 17th January 2022, the acquisition of the Group by Tencent Holdings Limited ("Tencent"), through its indirect wholly owned subsidiary, Sixjoy Hong Kong Limited, was completed.

Immediately following the acquisition, Sumo Group Limited's entire shareholding in Pipeworks, Inc ("Pipeworks") was transferred to a Voting Trust and in July 2022, the entire shareholding of Pipeworks, Inc and it's holding company Pacman Acquisition Sub, Inc (together the "Pipeworks Group") were sold. The consolidated results of the Group exclude the results of Pipeworks, Inc and Pacman Acquisition Sub, Inc from 17 January 2022 when control of Pipeworks was transferred to the Voting Trust.

The Group profit before tax includes a loss of £10.4m in respect of the disposal, reflecting the difference between the carrying value of assets of the Pipeworks Group, including Goodwill and Intangible assets, and the net disposal proceeds of the sale. Net foreign exchange gains in respect of the transaction of £2.7m were also recognised. Further details on the disposal are included in note 25 to the financial statements.

The Group performed well in 2022, delivering revenue growth of 2.4% to £114.9m and, on a like-for like basis excluding Pipeworks, revenue grew by 24.2%.

Loss before tax was £17.6m, compared to a profit before tax of £2.6m in 2021. The loss is driven by significant exceptional costs incurred on the acquisition of the Group by Tencent, and the disposal of Pipeworks. Adjusted EBITDA was £12.1m, a reduction of 52.1% from £25.3m in 2021. On a like for like basis, excluding Pipeworks, Adjusted EBITDA was £12.0m, a reduction of £9.9m from £21.9m in 2021, a decrease of 45.3%. The decline in EBITDA year on year was in line with management's expectations and reflects the Group's investment in the creation and development of original IP as part of its long term strategy.

Operational highlights:

- PixelAnt Games ("PixelAnt") continued to expand with the opening of a studio in the Czech Republic in June 2022.
- Timbre Games, the Group's Vancouver-based development studio, continued to grow, increasing headcount by 30 to 41 by 31 December 2022.
- The Group's second India studio in Bangalore, announced in 2021, began recruitment and increased its headcount to 19 by 31 December 2022.
- Secret Mode, The Group's video game publisher established in March 2021, published a further six titles bringing its portfolio to 11 including four titles developed by Sumo Group studios.
- The Group maintained its three-star accreditation from the Best Companies employee engagement survey and was named as #3 in the Best Companies' UK's 100 Best Large Companies to Work For list for 2023, following on from its ranking of #12 in 2022.
- Group headcount, excluding Pipeworks, increased by 321 in the year to 1,549.

Financial key performance indicators:

	2022	2021	*Change*
Reported Results	£m	£m	%
Revenue	114.9	112.2	*2.4*
Revenue – existing Group	113.9	91.7	*24.2*
Gross Profit	42.0	49.1	*(14.4)*
Gross Margin	36.5%	43.7%	*(7.2)*
(Loss)/Profit before Taxation[1]	(17.6)	2.6	
Cash flow from operations	(3.4)	26.4	
Net cash	43.9	13.2	

Underlying Results

Adjusted gross profit[2]	41.5	47.8	*(13.3)*
Adjusted Gross margin[3]	33.4%	40.1%	*(6.6)*
Adjusted EBITDA[4]	12.1	25.3	*(52.1)*
Adjusted EBITDA – existing Group[5]	12.0	21.9	*(45.3)*

1. *The statutory loss before taxation of £17.6m in 2022 is stated after charging £16.2m of exceptional transaction costs associated with the sale of the Group to Tencent, £10.4m loss on disposal recognised on the disposal of Pipeworks and £2.7m of foreign exchange gains associated with the disposal. Also included is share based payment charge of £1.4m and the unrealised loss on foreign currency derivative contracts of £0.4m.*
2. *Adjusted gross profit is a non-GAAP metric used by management and is not an IFRS disclosure. It is stated after expensing £0.5m of investment in co-funded games expenses added back in previous years (2021: after expensing £1.2m).*
3. *Adjusted gross margin is a non-GAAP metric used by management and is not an IFRS disclosure. It is stated after adding back to gross profit the investment in co-funded games expensed, and adding to revenue amounts in respect of Video Games Tax Relief ("VGTR").*
4. *Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share based payments charge, foreign currency derivative contracts, exceptional items, impairment and the fair value gain or loss on contingent consideration, less the investment in co-funded games expensed and operating lease costs capitalised under IFRS 16.*
5. *Adjusted EBITDA – existing Group excludes the EBITDA of Pipeworks*

FUTURE OUTLOOK

The acquisition of the Group by Tencent brings expertise and resources to accelerate the growth of Sumo and its' investment in the creation of original IP, leaving the Group positioned well for continued sustainable growth in the future through a combination of work for hire development and launch of original IP titles.

Despite global macro-economic pressures impacting technology industries, and a slight decline in the global video games market overall in 2022 following two years of significant growth during the pandemic, the number of players continues to increase year on year, with significant demand for high quality services and interactive content driven by advancing technology and new platforms. The directors expect that this strong underlying growth in the videogames market will continue in the long-term.

The Group's revenue visibility on its long-term development contracts continues to be one of its key strengths. The Group continues to work on major projects with both existing and new clients, reflecting confidence in the Group's capabilities.

PRINCIPAL RISKS AND UNCERTAINTIES

As part of the Group's structured risk management process, the Board regularly considers those risks that might adversely affect performance of the Group and monitors mitigating actions being taken. These risks were considered again by the Board in preparing this Annual Report.

The items referred to below are regarded as the key risks for the Group. These are not the only risks that might affect the Group's performance, but the Board believes that they are currently the most significant and specific to the Group's business.

The risk relating to dependence on a concentrated client base has been removed as the number of clients the group is working with has expanded significantly.

STRATEGIC RISKS	**Change in level of risk from prior year**
Quality risk The Group's order book is driven by its reputation for high quality work that meets or exceeds client expectations. A drop in quality could lead to an inability to obtain future work on major projects. It could also negatively impact motivation of our people. *Mitigating activities* The Group has in place a number of systems and reviews that constantly monitor the quality and delivery of work to the requirements of clients.	**Risk remained the same**

OPERATIONAL RISKS	Change in level of risk from prior year
Ability to recruit and retain skilled personnel The Group's operational and financial performance is dependent upon its ability to attract and retain effective personnel. *Mitigating activities* We monitor our retention and recruitment levels on a weekly basis in line with the Group's growth targets to ensure we take swift action when targets are not met. An annual review of remuneration packages is conducted to ensure that we remain competitive within the industry. The Group operates a flexible benefits package for colleagues to choose those most important to themselves. Formal feedback channels for employees include the annual satisfaction survey, appraisal programme and during the induction and exit processes. We use the results to make changes to the way we work, improving the level of employee engagement and satisfaction. The value of these actions has been demonstrated by the Group achieving 3 star accreditation in the Best Companies engagement survey for three successive years. The Group has implemented a process to engage with specialist contracting organisations to provide out-sourced resources that provide flexibility to meet demand from the Group's clients. Notwithstanding these actions, the combination of the COVID-19 pandemic, Brexit and the highly competitive situation within the video games industry means that we believe this risk has remained the same.	**Risk remained the same**
IT Security A breach of IT security, unauthorised copying or software piracy could result in loss of business and reputational damage for the Group, as well as associated negative financial impacts to revenue and costs from unauthorised copying of the intellectual property of clients. Unauthorised copying of the Group's own intellectual property games, or games produced by the Group for which the Group may be entitled to revenue-based royalties, could have an adverse effect on the Group's ability to generate revenues and profits. Complete protection cannot be guaranteed, and an IT security breach could cause significant disruption to the Group's operations. *Mitigating activities* Our project work is protected by copy protection technology intended to prevent piracy. We conduct robust testing on our systems and software, including penetration testing by external consultants. The implementation of action plans that arise from the results of testing is monitored by the Board. Disaster recovery plans have been developed to ensure the business can recover from any interruptions with minimal impact. The Group holds the ISO27001 information security management accreditation, confirming the robustness of the Group's security systems.	**Risk remained the same**
Stability of IT systems Due to the Group's high dependence on its IT systems and infrastructure, any failure, disruption or damage to the network or systems could lead to significant business interruption. Disruption and inability to conduct "business as usual" could lead to reputational damage, financial losses and the inability of the Group to generate revenues going forward. *Mitigating activities* We have an experienced and dedicated IT team, and use external consultants where we need to, ensuring we have a good balance of skills and experience in the team. Back-up servers are used, and server disaster recovery plans are in place to provide data resilience. Infrastructure is regularly monitored and updated by the IT team. Business continuity plans are in place for our main operations, including plans being developed at a Studio and project level. Due to the continuous investment and improvement in our systems, processes and capability, we believe this risk has reduced.	**Decreased Risk**

Publishing During 2021, the Group launched its publishing division, Secret Mode. This facilitates the self-publishing of Own-IP and has also provided opportunities to publish games created by other developers. This brings with it the risk of investment being made in a game that proves not to be successful. Dealing directly with consumers adds new legal requirements for the Group and increases the importance of compliance with data privacy laws. *Mitigating activities* The Group has recruited individuals with considerable publishing experience to operate the new division, with strong track records of commercial success. The legal framework within which the division will operate has been carefully established with input from specialist professional advisers.	**Risk remained the same**
FINANCIAL RISKS	
Credit risk The Group engages with an increasingly wide range of customers and usually provides credit terms for payment of invoices. In addition, the Group recognises contract assets in respect of revenue earned from customers but not yet billed in cases where work performed exceeds the stage of approved milestones and deliverables. There is a risk that customers may default on amounts due to the Group. *Mitigating activities* Contracts are typically structured with multiple payment milestones, limiting the amount of work and investment in a project prior to payment. The Group assesses the credit risk of all new customers and contracts, which may include using third party credit references and publicly available financial information. Prompt payment for all large projects is monitored and reported to senior management on a weekly basis and a bad debt report is produced and reviewed on a monthly basis. The Group has very few instances of historic bad debt.	**Risk remained the same**
Development work prior to contract As part of business development activity, work is sometimes completed in advance of a formal contract being in place with the customer. While this is common practice in the industry, it creates the risk that costs attributable to the development work cannot be recovered if the contract does not materialise or the scope of the contract renders some of the work obsolete. This would have an adverse impact on profit generation for the Group. *Mitigating activities* The Group has a robust contract approval process. The Group also has good relationships with publishers and a strong track record of contracts moving into the production phase. We believe this risk has decreased as the values involved represent a smaller proportion of the Group's overall revenues.	**Decreased risk**

We recognise that climate change represents a significant global environmental threat. The Group has a part to play in positively impacting climate change by acting as a responsible business and we are committed to achieving our goal of becoming carbon net-zero by 2025.

We have considered the potential impact of climate change throughout the financial statements and other information in these annual accounts, including as part of our assessment of going concern, our impairment exercises and as part of our review of the business strategy and forecasts. We do not anticipate a material financial impact as a result of climate change over the next 3 years.

Section 172 statement

The following disclosure describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 and forms the directors' statement required under section 414CZA of that Act.

Stakeholder group	Why it is important to engage	How management and/or Directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Parent The Group is wholly owned by Tencent Holdings Limited through its indirect wholly owned subsidiary Sixjoy Hong Kong.	The acquisition of the Group by Tencent brings expertise and resources to accelerate the growth of Sumo and its' investment in the creation of original IP.	Sumo Group's Board comprises three Sumo Group employees and four Tencent employees, all of whom attend regular Board meetings. Sumo also provides forecasts, plans and information as part of Tencent's annual planning and reporting cycle.	Board meetings include discussions of the Group's strategy and performance as well as routine business matters.	Feedback obtained may be integrated into the Group's ongoing strategy and long term financial and operational planning.
Our people The Group had 1,549 employees at year end based predominantly in the UK but also in India, Canada, Poland and the Czech Republic.	Our success is significantly dependent on and driven by the talent and commitment of our people. The Group must be attractive to new talent and provide an environment in which everyone is supported to succeed and that promotes their well-being. Recruiting and retaining the best talent is a source of sustainable advantage in our industry.	Our workforce engagement activities take place at all levels across the business, using formal and less formal means, from our annual group-wide Employee Engagement Survey to daily individual project team catch-ups.	We again used the Best Companies Survey to obtain feedback from our people and we were very pleased to retain a 3 Star rating for 2023.	Our intranet and learning and development portal (launched in 2020) has been integral in enabling connectivity between our people and facilitating the sharing of resources to support our people during the pandemic. Significant improvements to both our holiday and flexitime policies to ensure greater focus on providing a better work-life balance for all employees have been implemented.
Clients Our clients include many of the world's most successful publishers of video games and game platform owners, as well as in other sectors such as film and product design.	Clients entrust us with their intellectual property and to bring their visions to life. Their business models, games and hardware are continuously developing. We must stay current and evolve alongside this fast-moving market, to retain our position as a long- term partner for our clients.	Many individuals across the Group are in regular contact with existing and potential new clients. This happens as a matter of course, as we work on specific projects. In addition to this, our teams meet and engage with clients regularly by responding to requests for proposals and whilst pitching our ideas.	Every client is different, but all focus on the quality and flexibility of the services that we provide.	We use a detailed and comprehensive pitch deck for clients and potential clients that was extensively used in virtual meetings to inform them of the significant development and growth of the Group.

Stakeholder group	Why it is important to engage	How management and/or Directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Suppliers We have a relatively small number of suppliers, including those who provide commodity items such as computer hardware and utilities. In addition, we require licences to be able to carry out development work on video game platforms (such as PlayStation and Xbox). We work with a number of organisations that provide us with distributed development capabilities to support and supplement our in-house resources.	Our suppliers are important, enabling us to provide a high quality of service to our clients. We must work closely with game platform owners to maintain our licences to develop on their platforms.	Our technology and development teams maintain consistent dialogue with platform owners. Our distributed development team identify and qualify suitable organisations. We then agree suitable working arrangements and legal terms with these suppliers.	These include general business relationship matters, technology developments and ways of working.	We are establishing a smaller group of premium suppliers of development services with whom we have strong relationships.
Community We operate in a number of communities around the UK at both national local level and aim to have a positive impact on those communities.	It is increasingly important to all our stakeholders that we support local communities and provide opportunities to individuals within them.	We continued our schools engagement programme during 2022 with the Ahead Partnership. The Sumo Academy (created in 2020 to develop new pathways into the games industry) has had a new game programmer apprenticeship approved and is providing 10 training positions starting in January 2023. We have a dedicated Charity Partnership Manager coordinating, tracking and supporting the activation of charity	Engaging with young students gives the business an insight into how the video games industry is viewed by students and their teachers. Directly engaging with potential recruits from atypical backgrounds will increase our understanding of the challenges they face and how we can help overcome them. With regards to our charitable partner we believe that every small thing we do could make a big difference, and our studios have taken part in, promoted,	One of the students involved in our 2019 programme subsequently won the 2020 BAFTA Game Concept Award in his age category for the game he created as part of the programme, having been encouraged by the Group to enter. Sumo Group supports three charities at Group level; Special Effect, a UK charity who transform the lives of physically disabled people right across the world through the innovative use of technology, Solving Kids Cancer, a charity fighting for a future

Stakeholder group	Why it is important to engage	How management and/or Directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
		strategy and activity across the Group. We operate a payroll giving scheme in the UK. Since its launch in 2020, employees have raised over £1324 regularly donating to 57 charities. We also award Learning Days, one of which can be used for volunteering or fundraising activity for a charity of their choice.	and supported our charity partners with a variety of fund-raising events including cyclathons, marathons and game jams. We have raised a total of over £170,000 this year for our charities.	where no child dies of the childhood cancer neuroblastoma or suffers due to its treatment; and GamesAid, a games industry umbrella charity supporting a number of smaller charities nominated and voted for by its members. In addition to this over 12 local charities have been supported by its local Sumo Group studio in relation to their location.
The environment	There is increasing interest from all stakeholder groups of the environmental impact of businesses and we understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term.	While our activities are largely office-based and do not involve any energy-intensive processes or generate significant waste, the business can take, and is taking, actions to reduce its environmental impact. Feedback has been sought from our people on the key areas of concern and we continue to document our consumption through our annual Energy and Carbon Report.	Our people wanted to understand what actions the Group might take to reduce its carbon footprint and also how they might support these individually.	During 2021, the Group announced its commitment to be carbon net zero by 2025. The Group continues to make investment in efficient facilities and behavioural change. We are currently reviewing plans to add solar panels to our Sheffield studio, and we transfer energy contracts to fully renewable when they come up for renegotiation. We also remain a member of Playing for the Planet. Our Group travel policy requires all business travel to be booked through a service provider which implements carbon offsets, and we recycle hardware and continue to review our data storage use with the aim of minimising energy consumption.

Energy and Carbon Report

Approach

The UK Government's environmental reporting guidance on how to measure and report greenhouse gas emissions has been used, along with the provided greenhouse gas reporting figures for the relevant year. The financial control approach has been used to define the scope boundary.

Reporting Period

The reporting period is 1st January 2022 – 31st December 2022, aligning with the Group's financial year.

Operational Scopes

Scope 1, 2 and 3 emissions have been included within this report. Sumo leased 24 sites during the reporting period that are included in SECR, where electricity and gas are the primary and only utilities used. Sumo owned company vehicles and had staff mileage claims. All activities included in this report are based within the UK but Sumo do have operations outside of the UK.

- Scope 1 emissions consists of natural gas usage from buildings and company cars.
- Scope 2 emissions consists only of electricity usage from buildings.
- Scope 3 emissions are from grey fleet mileage.

The table below shows the breakdown of carbon emissions, in kilograms of carbon dioxide equivalent (kgCO2e) and kilowatt per hour (kWh), by scope and specific area, it also shows our Intensity Ratios with comparisons to the prior year:

KPI	UOM	2022	2021
Direct (Scope 1) energy use	kWh	162,398.57	60,741.13
Indirect (Scope 2) energy use	kWh	1,498,424.95	1,196,559.65
Transport Grey Fleet (Scope 3) energy use	kWh	94,253.73	34,882.74
Total energy use	**kWh**	**1,755,077.24**	**1,292,183.52**
Direct (Scope 1) CO2 emissions	kgCO2e	29,710.43	11,607.49
Indirect (Scope 2) CO2 emissions	kgCO2e	289,767.35	252,512.10
Transport Grey Fleet (Scope 3) CO2	kgCO2e	22,939.40	8,513.45
Total emissions	**kgCO2e**	**342,417.18**	**272,633.04**
Intensity Metrics			
UK Employees at period end	Heads	1,247	993
Gross Floor Area at period end	sqft	141,322	100,877
Energy use per head	kWh	1,407.44	1,301.29
Energy use per square foot	kWh	12.42	12.81
kgCO2e per head	kgCO2e	274.59	274.55
kgCO2e per square foot	kgCO2e	2.42	2.70

Carbon Offsets & Electricity

Electricity purchased for own use or consumption: 1,498,062.66 kWh.

Renewable electricity generated from owned or controlled sources: 456,315.5 kWh.

Sumo recognises that the company's primary responsibility is to reduce emissions as far as possible. However, as Sumo work towards responsible consumption practices, to mitigate any impact, electricity for majority of sites has been sourced from renewable energy sources from their new contract beginning in September 2022, meaning there are no actual carbon emissions from sites, however location-based grid average emissions have been used to report the emissions figure.

Intensity Ratios & Targets

An overall intensity ratio of gross Scope 1, 2 and 3 emissions tCO_2e per Floor Area (ft^2) has been calculated. This will allow comparison and benchmarking with similar sites and organisations and still drives energy reduction goals.

The previous reduction target was to reduce gross Scope 1, 2 and 3 emissions by 5% from FY 2020 to FY 2022. *The chosen emissions reduction target for this financial year is to reduce the overall business intensity ratio by* 5% from FY 2022 to FY 2023. The target is against gross emissions because a significant proportion of Sumo's global emissions are from international business travel although these are not a requirement of SECR. If the turnover theoretically remains the same across the current and upcoming reporting periods, predicted gross emissions are 236.7 tCO_2e.

Carbon Reduction Initiatives

Sumo is committed to sustainability and becoming as energy efficient as possible. The following energy-efficiency actions have been taken to work towards the goal of becoming as sustainable as possible:

- Electricity is sourced for Sumo from third-party renewable electricity contracts, meaning there are no actual carbon emissions from sites when the contracts are up for renewal and able to move away from Brown energy contracts.

Principal decisions

Principal decisions are those which have a significant impact on the Group's strategy or structure. Principal decisions are made via the Group's governance processes including review and approval of proposals at Group Board meetings. As described in the business review section, during the year the Group disposed of its US Subsidiaries Pipeworks, Inc and Pacman Acquisition Sub, Inc and opened a new studio in the Czech Republic.

ON BEHALF OF THE BOARD ON 20 JUNE 2023:

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A M D Stewart
Director

Directors' Report
for the year ended 31 December 2022

The directors present their report and the financial statements of the Group for the year ended 31 December 2022.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £19,241,000 (2021: profit of £1,589,000).

No dividends will be distributed for the year ended 31 December 2022.

FUTURE DEVELOPMENT

The directors expect the business to continue to trade satisfactorily, deliver sustainable growth in revenue and headcount, and to continue developing new and existing client relationships alongside original IP titles. There have been no significant events which have occurred since the end of the financial year.

DIRECTORS

The directors shown below have held office during the period from 1 January 2022 to the date of this report.

C Cavers
P R Porter
D C Wilton (Resigned 01 September 2022)
Sir Ian Livingstone (Resigned 17 January 2022)
M Sherwin (Resigned 17 January 2022)
A Dunstan (Resigned 17 January 2022)
ETH Chan (Appointed 28 April 2022)
Y Li (Appointed 28 April 2022)
M Liu (Appointed 28 April 2022)
C Ning (Appointed 28 April 2022)
A M D Stewart (Appointed 01 September 2022)

RESEARCH AND DEVELOPMENT ACTIVITIES

The Group continues to support innovation which is recognised to be research and development expenditure. The expenditure relating to research and development is charged to the statement of comprehensive income in the year in which it is incurred.

EMPLOYEE INVOLVEMENT

The Group regularly provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in its performance.

The Group recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to such persons, including any employee who becomes disabled, having regard to their particular aptitudes and abilities. Where practicable, disabled employees are treated equally with other employees in respect of their eligibility for training, career development and promotion.

DIRECTORS' RESPONSIBILITIES STATEMENT

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 Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group financial position and financial performance.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, section 172 statement and directors' report that comply with that law and those regulations.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

SUBSEQUENT EVENTS

There have been no events to note since the balance sheet date.

GOING CONCERN

The directors have prepared these financial statements on a going concern basis.

The Group's business activities, its future outlook and the principal risk and uncertainties affecting the Group along with the steps taken to mitigate these risks have been summarised earlier in this report. Financial projections have been prepared to 30 June 2024. The Group has applied downside sensitivities to these financial projections to assess the Group's ability to continue operating as a going concern. This process included applying a 'reasonable downside case' and 'worst case' scenario to both uncontracted forecast work for hire revenue and future projected game sales, to assess the impact on the Group's liquidity in each scenario. In each case, proportionate mitigating actions were assumed to reduce cash outflows accordingly without impacting on the Group's operations. In both scenarios, the Group's liquidity was maintained throughout the period of assessment.

Accordingly, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence throughout the going concern period and they have adopted the going concern basis of accounting in preparing the financial statements. A more detailed assessment of going concern is provided in Note 2 of the Financial Statements.

AUDITOR

The auditor, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed by the board of directors.

ON BEHALF OF THE BOARD:

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A M D Stewart
Director
20 June 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUMO GROUP LIMITED

Opinion

We have audited the financial statements of Sumo Group Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise ***the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cashflow Statement, Parent Company Balance Sheet and Parent Company Statement of Changes in Equity*** and the related notes 1 to 28 (group) and notes 1 to 8 (parent company), including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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 group and parent company's ability to continue as a going concern for a period of 12 months through to 30 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 12, 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 this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, 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 group's and the parent 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 group or the parent 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.

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are UK adopted international accounting standards, UK GAAP (FRS 101), the Companies Act 2006 and the relevant tax compliance regulations in the jurisdictions in which the group operates in.
- We understood how Sumo Group Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to and discussions with those charged with governance.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management and those charged with governance to understand where it considered there was a susceptibility to fraud. We also considered performance targets and the propensity to influence efforts made by management to manage earnings. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals to revenue and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved using data analytics to consider the full population of journal entries, focusing our work on manual journals and journals indicating large or unusual transactions based on our understanding of the business and enquiries of management. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards and UK legislation.

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP
F72CB7AD403543E

Hayley Carrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
20 June 2023

Consolidated Income Statement

for the year ended 31 December 2022

	Note	Year ended 31 December 2022	Year ended 31 December 2021
		£'000	£'000
Revenue	4	**114,864**	112,213
Direct costs	7	**(82,016)**	(70,188)
Video Games Tax Relief		**9,118**	7,027
Direct costs (net)	6	**(72,898)**	(63,161)
Gross profit		**41,966**	49,052
Operating expenses	7	**(35,443)**	(40,789)
Operating expenses – exceptional	7	**(23,962)**	(19,565)
Operating expenses – fair value gain on contingent consideration	7	-	15,225
Operating expenses – total		**(59,405)**	(45,129)
Group operating (loss)/profit		**(17,439)**	3,923
Analysed as:			
Adjusted EBITDA[1]		**12,127**	25,269
Amortisation	7, 12	**(814)**	(5,140)
Depreciation	7, 13	**(5,192)**	(4,684)
Share-based payment charge	19	**(1,413)**	(9,699)
Investment in co-funded games expensed	27	**498**	1,241
Operating lease costs capitalised under IFRS16	27	**1,703**	1,831
Foreign currency derivative contracts	27	**(386)**	(555)
Exceptional items	7	**(23,962)**	(19,565)
Fair value gain on contingent consideration	7	-	15,225
Group operating Profit		**(17,439)**	3,923
Finance cost	8	**(903)**	(1,340)
Finance income	9	**696**	14
Profit before taxation		**(17,646)**	2,597
Taxation	11	**(1,595)**	(1,008)
Profit for the year attributable to equity shareholders		**(19,241)**	1,589

Note 1: Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, impairment, the fair value gain or loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts. Further details are provided in Note 27.

The notes on pages 22 – 55 form part of these Group financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
(Loss)/profit for the year attributable to equity shareholders	**(19,241)**	**1,589**
Other comprehensive expense		
Exchange differences on retranslation of foreign operations	**4,732**	**891**
Total other comprehensive income	**4,732**	**891**
Total comprehensive (expense)/income for the year	**(14,509)**	**2,480**

The notes on pages 22 – 55 form part of these Group financial statements.

Consolidated Balance Sheet

as at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Goodwill and other intangible assets	12	**40,862**	96,840
Property, plant and equipment	13	**17,421**	21,916
Deferred tax asset	20	**590**	2,825
Total non-current assets		**58,873**	121,581
Current assets			
Trade and other receivables	15	**47,159**	37,938
Cash and cash equivalents	16	**43,883**	17,321
Corporation tax receivable		**71**	-
Total current assets		**91,113**	55,259
Total assets		**149,986**	176,840
Current liabilities			
Trade and other payables	17	**32,851**	31,426
IFRS 16 lease liabilities	18	**1,627**	1,538
Short term borrowings	21	-	4,081
Contingent consideration	25	**1,245**	17,341
Corporation tax payable		-	295
Total current liabilities		**35,723**	54,681
Non-current liabilities			
IFRS16 lease liabilities	18	**8,015**	11,953
Contingent consideration payable	25	**5,536**	6,609
Deferred tax liability	20	-	3,496
Total liabilities		**49,274**	76,739
Net assets		**100,712**	100,101
Equity			
Share capital	23	**1,791**	1,715
Share premium	23	**99,819**	83,009
Reverse acquisition reserve	23	**(60,623)**	(60,623)
Merger relief reserve	23	**590**	590
Foreign currency translation reserve	23	**(253)**	(3,365)
Own shares	23	-	(7,199)
Capital contribution reserve	23	**605**	-
Retained earnings		**58,783**	85,974
Total equity		**100,712**	100,101

The Group financial statements on pages 17 – 55 were approved by the Board of Directors on 20 June 2023 and were signed on its behalf by:

A M D Stewart
Director

The notes on pages 22 – 55 form part of these Group financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger relief reserve £'000	Foreign currency translation reserve £'000	Own shares £'000	Capital Contribution Reserve £'000	Retained earnings £'000	**Total equity £'000**
Balance at 1 January 2021		**1,693**	**81,574**	**(60,623)**	**590**	**(4,256)**	**(4,919)**	-	**81,792**	**95,851**
Profit for the year		-	-	-	-	-	-	-	1,589	**1,589**
Exchange differences on retranslation of foreign operations		-	-	-	-	891	-	-	-	**891**
Total comprehensive income for the year		-	-	-	-	**891**	-	-	**1,589**	**2,480**
Transactions with owners:										
Issue of shares in year – warrants		15	1,435	-	-	-	-	-	-	**1,450**
Issue of shares in year – share based payment awards		7	-	-	-	-	3,193	-	(3,200)	-
Purchase of own shares		-	-	-	-	-	(5,473)	-	-	**(5,473)**
Share-based payment transactions		-	-	-	-	-	-	-	5,793	**5,793**
Balance at 31 December 2021		**1,715**	**83,009**	**(60,623)**	**590**	**(3,365)**	**(7,199)**	-	**85,974**	**100,101**
Profit for the year		-	-	-	-	-	-	-	(19,241)	**(19,241)**
Exchange differences on retranslation of foreign operations		-	-	-	-	4,732	-	-	-	**4,732**
Total comprehensive expense for the year		-	-	-	-	**4,732**	-	-	**(19,241)**	**(14,509)**
Transactions with owners:										
Issue of shares in year – contingent consideration	23	33	16,810	-	-	-	-	-	-	**16,843**
Issue of shares in year – share based payment awards	23	43	-	-	-	-	7,199	-	(7,242)	-
Share-based payment transactions	23	-	-	-	-	-	-	605	(708)	**(103)**
Transfer of foreign currency amounts to income statement	25	-	-	-	-	(1,620)	-	-	-	**(1,620)**
Balance at 31 December 2022		**1,791**	**99,819**	**(60,623)**	**590**	**(253)**	-	**605**	**58,783**	**100,712**

The notes on pages 22 – 55 form part of these Group financial statements.

Consolidated Cashflow Statement

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Profit for the financial year		**(19,241)**	1,589
Income tax	11	**1,595**	1,008
Finance income	9	**(696)**	(14)
Finance costs	8	**903**	1,340
Operating profit		**(17,439)**	3,923
Add back: Depreciation charge	13	**5,192**	4,684
Add back: Amortisation & impairment of intangible assets	12	**939**	5,140
Add back: Amortisation & disposal of intangible assets – cost of sales	12	**4,496**	308
Add back: Loss on disposal	25	**10,443**	16,809
Deduct: Fair value gain on contingent consideration	7	-	(15,225)
Add back: Share-based payments charge	19	**1,413**	9,699
Deduct: Share based payment cash flows		**(5,434)**	(383)
Increase in trade and other receivables		**(11,006)**	(7,158)
Increase in trade and other payables		**7,966**	8,571
Cash flows from operating activities		**(3,430)**	26,368
Tax paid		**(401)**	(1,038)
Net cash (used in)/generated from operating activities		**(3,831)**	25,330
Cash flows from investing activities			
Purchase of intangible assets	12	**(6,302)**	(2,245)
Purchase of property, plant and equipment	13	**(4,207)**	(4,841)
Acquisition of subsidiary – net of cash acquired	25	**(500)**	(5,903)
Disposal of subsidiary – net of cash and debt	25	**51,231**	-
Net cash generated from/(used in) investing activities		**40,222**	(12,989)
Cash flows from financing activities			
Finance income	9	**696**	14
Finance costs	8	**(486)**	(230)
Proceeds from issue of shares	23	-	1,450
Purchase of own shares	23	-	(5,473)
Proceeds of borrowings	21	**25,000**	-
Repayment of borrowings	21	**(29,081)**	-
Lease payments		**(1,693)**	(1,637)
Net cash used in financing activities		**(5,564)**	(5,876)
Net increase in cash and cash equivalents		**30,827**	6,465
Cash and cash equivalents at the beginning of the year		**17,321**	10,816
Foreign exchange		**(4,265)**	40
Cash and cash equivalents at the end of the year		**43,883**	17,321

The notes on pages 22 to 55 form part of these Group financial statements.

Notes to the Financial Statements

for the year ended 31 December 2022

1. GENERAL INFORMATION

Sumo Group Limited (the 'Group') is registered in England and Wales as a limited Group, limited by shares. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activity of the Group and its subsidiaries (together the 'Group') is that of video games development.

The Group financial statements present 12 months results for the year ended 31 December 2022, and were approved by the Directors on 20 June 2023.

The Group financial statements are on pages 17 to 55.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group's principal accounting policies, all of which have been applied consistently to all the periods presented, are set out below.

Basis of preparation

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies reporting under IFRS. The Group financial statements have been prepared on the going concern basis and on the historical cost convention modified for the revaluation of certain financial instruments.

The preparation of Group financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which are outlined in the critical accounting estimates and judgements section of these accounting policies. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Going concern

These Group financial statements have been prepared on the going concern basis.

The Group's business activities, its future outlook and the principal risk and uncertainties affecting the Group along with the steps taken to mitigate these risks have been summarised earlier in this report.

The Group made a net loss before tax for the year of £17.6m, had Net Current Assets at the period end of £55.4m. The Group had gross cash balances of £31.5m at 31 May 2023, and no debt.

Financial projections have been prepared to June 2024. The Group's day to day working capital requirements are primarily expected to be met through existing cash resources and cash equivalents and receipts from its continuing business activities. In addition, the Group has secured funding via an intercompany loan facility from its parent group. The directors expect the Group to have sufficient income and cash resources to fund operations at least until 30 June 2024. The directors have reviewed the forecasts for this period and consider them to be achievable given the history of realisation of such revenues in line with contracted milestones and business development pipeline. The financial forecasts assess the impact on the Group's cash flows and cash position along with intercompany facilities and availability of future financing. Furthermore, the directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities.

Sensitivities have been applied to the Group's projections to assess the Group's ability to continue operating as a going concern until 30 June 2024. This process included applying a 'reasonable downside case' and 'worst case' scenario to both uncontracted forecast work for hire revenue and future projected game sales, to assess the impact on the Group's liquidity in each scenario. In each case, proportionate mitigating actions were assumed to reduce cash outflows accordingly without impacting on the Group's operations. In both scenarios, the Group's liquidity was maintained throughout the period of assessment.

Accordingly, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence throughout the going concern period through to 30 June 2024 and they have adopted the going concern basis of accounting in preparing the annual financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

There are no new or amended standards applicable in the year which have a material impact on the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective, and the Group has not yet completed an assessment of the impact of any future standards which are not yet effective.

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date control ceases.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Revenue

Revenue arises from the provision of game development services. To determine whether to recognise revenue, the Group follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is measured at transaction price, stated net of VAT and other sales related taxes.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Third party funded game development

There is generally one performance obligation with clients, being the development of a completed project or game and as such, the transaction price is allocated to the single distinct performance obligation. The transaction price is set out in the contract and is made up of fixed elements in the form of the development fee and guaranteed royalties and variable elements typically in the form of future royalties. At inception of each contract the Group begins by estimating the amount of the royalty to be received generally using the "expected value amount" approach. This amount is then included in the Group's estimate of the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur once any uncertainty surrounding the royalty is resolved. In making this assessment, the Group considers the length of the royalty period, the extent of external factors including how the publisher brings the game to market, expected critic scores and other expected game launches. The highly probable nature of the variable consideration is reviewed for each game at each reporting cycle.

As the Group's development activity creates and enhances the game that the customer controls as the game is developed, revenue is recognised over time as the Group satisfies performance obligations by transferring the promised services to its clients in accordance with paragraph 35(b) of IFRS 15. The amount of revenue to recognise is determined based upon the input method that calculates actual costs incurred relative to the total budgeted costs for the project based upon a percentage of completion calculation.

Estimates of revenues, costs or the extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known.

Where the original contract is modified, for example for a change to the scope or price of the contract, the nature of modification is considered as to whether it gives rise to a performance obligation distinct from the promises in the original contract. In cases where the modification gives rise to a distinct performance obligation, the modification is treated as a new contract in its own right and the 5-step model considered for this new contract. Where it does not, the modification is accounted for as if it was part of the original contract. The effect that the modifications have on the transaction price and the measure of progress towards the complete satisfaction of the performance obligation is recognised as an adjustment to revenue at the date of the contract modification. The adjustment to revenue is made on a cumulative catch-up basis.

The fixed elements of the transaction price are invoiced based upon a payment schedule. If the services rendered by the Group exceed the payments, a contract asset for amounts recoverable on contracts is recognised. If the payments exceed the services rendered, a contract liability representing advances for game development is recognised.

Own-IP

The Group also creates its own concepts and IP. The accounting for Own-IP differs depending on whether the Group retains control over the IP or passes control over to clients.

<u>Own-IP – Development revenues and royalties</u>

Where the Group passes control of IP over to its client during development, fixed and variable revenues are recognised over time, consistent with third party-funded game development revenues.

<u>Own-IP – Game revenues</u>

Where the Group retains control of its own IP, during the development phase no revenue is recognised. Once the game is completed and launched the Group recognises the revenues as they are earned (at a point in time).

Intangible assets relating to Own-IP controlled by the Group are measured at cost and tested for impairment. Once the game is launched the intangible asset is amortised as the game generates revenues and is subject to review for impairment at all times.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group may opt to licence its Own-IP games to publishers. There is generally a single performance obligation to grant a licence over the developed game. The transaction price includes only fixed elements, typically in the form of a guaranteed royalty. Revenue is recognised at a point in time when the completed game is delivered and the customer has the right to use the asset. As the fixed element of the transaction price will be recognised in advance of payments being received, a contract asset will be recognised. Game revenues from the right to use asset will be recognised as earned, based upon the future sales of the game in accordance with paragraphs B63-B63B of IFRS 15.

At the point at which a contract is established with a publisher, the Own-IP intangible asset will be converted to a work in progress contract asset. In this scenario the asset would be derecognised at the point the game is handed over to the publisher.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, impairment, the fair value gain or loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts.

Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) and Adjusted EBITDA are non-GAAP measures used by management to assess the operating performance of the Group. Exceptional items, share-based payment charges, impairment, fair value movements on contingent consideration, the impact of IFRS 16 adoption and the investment in co-funded games expensed are excluded from EBITDA to calculate Adjusted EBITDA. For further explanation and details see Note 27 and the Consolidated Income Statement.

The Directors primarily use the Adjusted EBITDA measure when making decisions about the Group's activities. As these are non-GAAP measures, EBITDA and Adjusted EBITDA measures used by other entities may not be calculated in the same way and hence may not be directly comparable.

Foreign currency

Transactions in foreign currencies are translated into the Group's presentational currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

On consolidation, the assets and liabilities of foreign operations which have a functional currency other than sterling are translated into sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these subsidiary undertakings are translated at average rates applicable in the period. All resulting exchange differences are recognised in other comprehensive income and documented in a separate component of equity.

Classification of instruments issued by the Group

Instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation is provided on the following basis:

Leasehold improvements	Over period of lease
Fixtures and fittings	25% straight line
Computer hardware	3 to 5 years
Right of use assets	Over period of lease

It has been assumed that all assets will be used until the end of their economic life. Freehold land is not depreciated.

Intangible assets

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately, or which arise from legal or contractual rights regardless of whether those rights are separable, and are initially recognised at fair value.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software purchased separately, that does not form an integral part of related hardware, is capitalised at cost. Amortisation is charged to profit or loss over the estimated useful lives of intangible assets and is presented within operating expenses. Intangible assets are amortised from the date they are available for use.

The estimated useful lives, are as follows:

Customer relationships	5 years
Customer contracts	Over period of contract
Trademarks	5 years
Game IP acquired	Over expected period of cash flows
Game IP internally developed	75% in the first year following launch and 25% in the second year
Software	2 years

Impairment

For goodwill that has an indefinite useful life, the recoverable amount is estimated annually. For other assets, the recoverable amount is only estimated when there is an indication that an impairment may have occurred. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Post-employment benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Business combinations

When the Group completes a Business Combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as Goodwill. Where consideration is contingent on future events, an estimate is made of the most likely outcome in determining the fair value at the acquisition date. Contingent consideration classified as a liability is discounted to present value, and is remeasured to fair value at each reporting date and recognised in the P&L.

On disposal of a subsidiary, the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end the end of the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

Lease Liabilities

The lease liability is initially measured at the present value of lease payments that were not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

If there is a remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded directly in profit or loss if the carrying amount of the right of use asset is zero.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group presents right-of-use assets within property, plant and equipment.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or leases for assets with a value of less than £5,000. These lease payments are expensed on a straight-line basis over the lease term.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:

- the initial recognition of goodwill where the initial recognition exemption applies;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Video Game Tax Relief

Video Game Tax Relief has only been recognised where management believe that a tax credit will be recoverable based on their experience of obtaining the relevant certification and the success of similar historical claims. Where the Group benefits from the VGTR claimed, such credits are recognised as part of direct costs, in order to reflect the substance of these credits to the Group and cash flows are presented within operating activities. The debit is recorded on the balance sheet as "VGTR recoverable" within current assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank borrowings that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

Financial derivatives

The Group uses derivative financial instruments to hedge its exposure to risks arising from operational activities, principally foreign exchange risk. In accordance with treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The Group does not hedge account for these items. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. At certain times the Group has foreign currency forward contracts that fall into this category.

Trade and other payables

Trade payables are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Segmental reporting

The Group reports its business activities in one area: video games development, which is reported in a manner consistent with the internal reporting to the Board of Directors, which has been identified as the chief operating decision maker. The Board of Directors consists of the Executive Directors.

Exceptional costs

The Group presents as exceptional costs on the face of the income statement, those significant items of expense, which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period.

This facilitates comparison with prior periods and trends in financial performance more readily. Such costs include professional fees and other costs, directly related to the purchase and disposal of businesses and to restructuring within the group. Further information is provided in Note 7.

Own shares

The Group previously held shares in two Employee Benefit Trusts. The consideration paid for the purchase of these shares was recognised directly in equity. Any disposals are calculated on a weighted average method with any gain or loss being recognised through reserves.

The assets and liabilities of the Employee Benefit Trusts (EBTs) have been included in the Group financial statements. Any assets held by the EBTs cease to be recognised on the group balance sheet when the assets vest unconditionally in identified beneficiaries. The cost of purchasing own shares held by the EBTs are shown as a deduction within shareholder's equity. The proceeds from the sale of own shares are recognised in shareholder's equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

During the year, all shares held by the Employee Benefit Trusts were vested with beneficiaries as part of the acceleration of Group share based payment schemes following the acquisition of the Group by Tencent, and both Trusts were subsequently wound up by the Trustees. Further details of these transactions are provided in Notes 19 and 23.

Shares to be issued

Deferred shares represent deferred consideration on the acquisition of a subsidiary and have been classified as equity instruments. The shares are measured at fair value at the acquisition date. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the equity instruments.

Retained earnings

Retained earnings includes all current and previous periods retained profits.

Direct costs

Included within direct costs are all costs in connection with the development of games, including an allocation of studio management costs. Video Games Tax Relief is presented within direct costs as it is directly related to the level of expenditure incurred. See Note 6.

Share-based payments

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans are cash-settled.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values using the Monte Carlo and Black Scholes models.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). The fair value of the options, appraised at the grant date, includes the impact of market based vesting conditions.

All share-based remuneration is ultimately recognised as an expense in staff costs. In respect of share-based remuneration in the Group's own equity instruments, the corresponding credit is recognised in retained earnings. Following the acquisition of the Group by Tencent, a number of employees participate in share-based remuneration plans of Tencent shares. In the case of these plans, the corresponding credit is recognised as a capital contribution. Where vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options in the Group's own equity instruments, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The group provides for National Insurance liabilities on the exercise of share based payments over time, using the best estimate of the liability at the balance sheet date.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated 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.

Critical accounting estimates

Revenue recognition on development contracts

There are estimates made in respect of the recognition of revenue on customer contracts, including:

- Development revenue recognised over time is determined based upon estimates on the overall contract margin and percentage of completion of the contract at each period end. These estimates are based on contract value, historical experience and forecasts of future outcomes. These include specific estimates in respect of contracts for which variations may be in the process of being negotiated, and so the contracts are accounted for on the basis of the best estimate of the revenue expected to be received on the contract, which are all expected to be resolved relatively shortly after the financial year end. A reduction of 1% of the revenue recognised on contracts which were not complete at 31 December 2022 (and therefore subject to these estimates) would result in a £1.9m reduction in revenue;

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

- Certain development contracts include an element of variable consideration, such as royalty income, which is contingent on future game sales. Such variable consideration is only recognised to the extent that it is highly probable that a significant reversal of cumulative revenue recognised will not occur once the certainty related to the variable consideration is subsequently resolved. 2022 revenue includes £nil (2021: £0.2m) of variable consideration not yet received and contingent on future sales.

Business combinations

When the Group completes a Business Combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as Goodwill. The aspects of the transactions that required significant judgement were the measurement of intangible assets acquired including customer contracts, customer relationships, trademarks and acquired IP, and the measurement of the fair value of contingent consideration. The Group did not make any acquisitions during the year.

The Directors review customer contracts and customer relationship assets on an annual basis which also involves an estimation of the length of the contract, an assessment of the relationship and an expected level of customer attrition. Details of the amortisation and impairment in respect of acquired intangible assets are provided in Note 12.

Contingent consideration recognised as a liability is remeasured to fair value at each reporting date. In determining the fair value of acquisition consideration which is contingent on future events, management is required to make estimates of earn out targets that will be achieved in the future. Estimates in respect of the achievement of earn outs are determined with reference to the budgets and forecasts of the acquired business. During the year, no changes were made to the estimation of fair value of contingent consideration payable. The Group recognised £171,000 interest on the unwinding of discounting of contingent consideration liabilities.

The Group tests Goodwill annually for impairment, or more frequently if there are indications that an impairment may be required. Details of the period end impairment review of Goodwill have been disclosed in Note 12 to the Financial statements.

Video Games Tax Relief

The process of claiming Video Game Tax Relief requires estimates to be accrued at the period end. Whilst the Group undertakes a detailed exercise involving external professional support in calculating the accrual, these claims are subject to review and approval by HMRC prior to payment. In 2022, £5,517,000 of Video Game Tax Relief income has been recognised in respect of claims not yet reviewed and approved by HMRC, being £14,826,000 of Video Game Tax Relief receivable at the balance sheet date, of which £9,309,000 is reimbursable to clients on receipt.

Also included on the Balance Sheet are Canadian Creative Interactive Digital Media Credits of £230,000.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. Options with both market and non-market conditions are most impacted by these estimates. During the year, no options were granted with market conditions, and there were no options outstanding at the end of the year with market conditions.

The share options charge is subject to an assumption about the number of options that will vest as a result of the expected achievement of certain non-market conditions. A 1% reduction in the percentage of lapses assumed in each option category in respect of the achievement of performance conditions would result in an increase in the cumulative IFRS2 charge of £27,000.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Recognition of Deferred Tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The deferred tax asset for the year ended 31 December 2022 is derived from the availability of losses to carry back and offset against the prior year's tax liability. A reduction in future taxable profits will therefore have no impact on the deferred tax asset recognised.

Accounting judgements

Judgements in applying accounting policies and key sources of estimation uncertainty: the following are the areas requiring the use of judgement that may significantly impact the financial statements.

Revenue recognition on development contracts

There are a number of judgements in respect of the recognition of revenue on development contracts, including:

- the determination of the number of distinct separate performance obligations in a contract. This is based upon judgement around whether the customer can benefit from the use of the service on its own or together with other resources that are readily available to it, and also whether the promise to transfer the service is separately identifiable from other promises in the contract. As explained in the accounting policy for revenue, in most cases this results in the identification of a single performance obligation, being the development of a completed project or game;
- Whether the Group transfers control of the game over time, and therefore satisfies the performance obligation and recognises revenue over time. This requires judgement as to whether the customer controls the game as it is created and enhanced. As the customer approves the development work as it progresses, and is involved in directing the development activity, it is generally considered that control is transferred over time and revenue is recognised accordingly; for revenue contracts with a significant financing component the transaction price is adjusted for both the length of time between when the Group delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates. When determining what rate to use, management consider the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception taking into account the credit characteristics of the customer. This involves a certain degree of judgement;
- variable consideration is constrained on contract inception until the time at which it is considered highly probable that the revenue will not reverse in future periods. As this determination includes a number of factors outside the control of the Group, the recognition of this revenue is an inherently difficult judgement, and may result in revenues being recognised in a later period than when the performance obligations were satisfied.

Video Game Tax Relief

It is in the Directors' judgement that presenting Video Game Tax Relief as a deduction from direct costs best reflects the substance and nature of these Credits. The Directors have considered the requirements and key accounting indicators of both IAS20 (Accounting for Government Grants) and IAS12 (Income Taxes) and have determined that Video Game Tax Relief is most appropriately accounted for under IAS20. See Note 6.

Disposal accounting

When accounting for the disposal of a subsidiary, key judgements are made in respect of the allocation of Goodwill to the component disposed of and the date of loss of control of the disposed component for the purposes of consolidation. When making these judgements in respect of the disposal of Pipeworks, management have considered the provision of IAS36 (Impairment) and IFRS10 (Consolidated Financial Statements).

4. TURNOVER

The Group's Turnover profit before taxation are mostly attributable to game development activities, the principal activity of the Group.

Analysis of revenue

The amount of revenue can be disaggregated by location of the clients as shown below:

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
UK & Ireland	**15,681**	14,729
Europe	**26,800**	12,392
North America	**49,399**	71,301
Rest of the World	**22,984**	13,791
	114,864	112,213

The Group's revenue can be disaggregated by category as follows:

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Development fees	**109,026**	109,376
Royalty	**2,827**	1,822
Game Revenues	**3,011**	1,015
Total Revenue	**114,864**	112,213

The above categories of revenue are recognised over time, with the exception of 'Game Revenues', which is recognised at a point in time.

On third party game development contracts, the estimated transaction price for the performance obligation includes both fixed ('development fees') and variable revenues (such as 'royalties') and is reassessed at each reporting date (with changes in the estimate recognised in the income statement), and recognised over time.

No royalty revenue has been recognised in respect of variable consideration identified as part of the transaction price for performance obligations already satisfied at the year-end date (2021: £0.2m), this is due to constraints to reflect uncertainty in the variable consideration which will be resolved in future periods. This uncertainty relates to circumstances outside of the group's control such as future success of video games which the group has developed. Royalties also include amounts recognised in revenue in 2022 relating to performance obligations satisfied in previous periods for which the outcome was uncertain totalling £2.4m (2021: £0.8m).

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied at 31 December 2022.

	2023	2024
	£'000	£'000
Revenue expected to be recognised	46,662	2,740

Assets and liabilities relating to contracts with clients

The Group has recognised the following asset and liabilities relating to contracts with clients:

	Note	**2022** £'000	2021 £'000
Contract assets – amounts recoverable on contracts	15	**9,215**	15,742
Contract liabilities – advances for game development	17	**1,858**	4,136

Contract assets – amounts recoverable on contracts represents contracts whereby the services rendered by the Group at the reporting date exceed the customer payments. Included within the above contract assets are amounts of variable consideration that are highly probable of not reversing of £nil (2021: £0.2m). In the event that this variable consideration is no longer considered probable, a provision for credit losses will be recorded. There are no provisions for credit losses in respect of contract assets at either year end.

In cases where the payments exceed the services rendered as at the balance sheet date, a contract liability is recognised for advances for game development.

Contract liabilities – advances for game development represent customer payments received in advance of performance obligations that are expected to be recognised as revenue in 2023. These amounts recognised will generally be utilised within the next reporting period.

5. EMPLOYEES AND DIRECTORS

The average monthly number of persons (including Directors) employed in the Group during the period was:

	Year ended 31 December 2022	Year ended 31 December 2021
Management (Directors)	**7**	3
Non-executives (Directors)	**-**	3
Development	**1,174**	1,067
Administration	**230**	160
	1,411	1,233

Staff costs (including Directors) are outlined below:

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Wages and salaries	**65,413**	56,566
Share-based payments	**1,413**	9,699
Defined contribution pension cost	**6,158**	4,187
Social security costs	**6,168**	4,456
Other employee health benefits	**1,973**	712
	81,125	75,620

Key management compensation

The following table details the aggregate compensation paid in respect of the key management, which is considered to be the Board.

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Salaries and other short-term employee benefits	**1,969**	1,872
Post-employment benefits	**49**	43
	2,018	1,915

There are no defined benefit schemes for key management. Pension costs under defined contribution schemes are included in the post-employment benefits disclosed above.

The total remuneration of the directors of the Group was £2.0m (2021: £1.9m). The highest paid director received total emoluments of £0.7m (2021: £0.6m).

The total number of share based payment awards exercised by directors and key management during the year was 1,745,000 (2021: 1,855,239).

The number of directors in respect of whose qualifying services shares were received or receivable during the year was:

	Year ended 31 December 2022	Year ended 31 December 2021
Number of Directors	**7**	6

6. DIRECT COSTS

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Direct costs	**82,016**	70,188
Video Games Tax Relief	**(9,118)**	(7,027)
	72,898	63,161

7. EXPENSES BY NATURE

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Exceptional items	**23,962**	19,565
Employee benefit expense (Note 5)	**81,125**	75,620
Depreciation charges (Note 13)	**5,192**	4,684
Amortisation and impairment charges (Note 12)	**814**	5,140
Fair value gain on contingent consideration	**-**	(15,225)
Operating lease payments	**274**	236

Exceptional items

Exceptional items in 2022 consist of:

- Professional advisor fees associated with the sale of the Group to Tencent (£15,678,000), the disposal of Pipeworks, Inc (£466,000), and the establishment of Pixelant Czech Republic (£35,000)
- Loss on disposal of Pipeworks (£10,443,000)
- Exceptional foreign exchange movements in respect of the Pipeworks disposal transaction, comprising foreign exchange movements between Group companies in respect of exceptional disposal transactions (loss of £2,688,000), offset by reclassification of foreign currency translation reserves to the profit and loss on disposal of foreign subsidiaries (gain of £1,620,000) and foreign exchange gains on the fair value of the investment in Pipeworks between the loss of control and disposal transaction (gain of £3,730,000)

Exceptional items in 2021 consist of:

- Professional advisor fees associated with the acquisition of the Group by Tencent (£2,105,000), the acquisition of Auroch Digital Limited (£271,000), the acquisition of Pixelant (£129,000) and other ongoing acquisition activity (£251,000)
- Impairment of Goodwill in respect of the Group's North America CGU (£16,809,000)

These items are considered to be material and exceptional in nature as they are non-recurring and are significant in size respective to the ongoing expenses of the group.

8. FINANCE COST

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
IFRS 16 lease interest	**246**	271
Bank and other interest	**486**	230
Unwind of interest on contingent consideration liability	**171**	839
Finance costs	**903**	1,340

9. FINANCE INCOME

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Interest income	**696**	14
Finance income	**696**	14

The interest income is generated from Pacman Acquisition Sub, Inc in the period from loss of control in January 2022 up to the date of disposal of the subsidiary and settlement of the respective loan in July 2022.

10. AUDITOR'S REMUNERATION

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Fees payable to Group's auditor and its associates for the audit of financial statements	175	200
Fees payable to Group's auditor and its associates for other services:		
The audit of subsidiary financial statements	-	123

Amounts paid to the Group's auditor in respect of services to the Group, other than the audit of the Group's financial statements, have not been disclosed separately as the information is required to be disclosed on a consolidated basis.

In the current year the group has taken the subsidiary audit exemptions under Companies Act section 479a-c. See note 28 for details.

11. TAXATION

The effective tax rate of the group for the period ended 31 December 2022 is (8.0%) (2021: (38.8)%)

Analysis of credit in year

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Current tax		
Current taxation charge for the year	**153**	1,427
Adjustments for prior periods	**(139)**	(199)
Total current tax	**14**	1,228
Deferred tax		
Origination and reversal of timing differences	**1,527**	(240)
Effect of changes in tax rates	**79**	31
Adjustments in respect of prior periods	**(25)**	(11)
Total deferred tax	**1,581**	(220)
Income tax debit reported in income statement	**1,595**	1,008
Reconciliation of total tax:		
(Loss)/Profit on ordinary activities before tax	**(17,646)**	2,597
(Loss)/Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19.00% (2019: 19.00%)	**(3,353)**	493
Effects of:		
Permanent differences	**4,472**	3,930
Share-based payments	**(6,146)**	56
Unrecognised deferred tax	**10,447**	2,447
Effects of different tax rates in overseas jurisdictions	**16**	(251)
Non-Qualifying Depreciation	**47**	-
Super deduction	**(160)**	(94)
Non-taxable income	**(3,514)**	(5,404)
Effect of change in rates	**(25)**	(11)
Other Timing Difference	**(129)**	-
Adjustments in respect of previous periods	**(60)**	(158)
Total taxation charge	**1,595**	1,008

Non-taxable income relates primarily to VGTR. Permanent differences relate primarily to exceptional items.

Taxation on items taken directly to equity was a debit of £1,053,000 (2021: Debit of £900,000) and relates to deferred tax on share option schemes.

Adjustments in respect of prior periods relate primarily to the utilisation of losses for which the deferred tax asset was unrecognised at 31 December 2022 and additional deductions in respect of the capital allowances super deduction which were identified following finalisation of the accounts.

Factors that may affect future tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. On 11 May 2021, UK Budget increased the corporation tax rate from 19% to 25% effective from 1 April 2023.

Accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2022.

12. GOODWILL AND OTHER INTANGIBLE ASSETS

	Software	Intellectual Property	Customer contracts	Customer relationships	Trade Marks	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
COST							
As at 1 January 2021	**1,615**	**1,947**	**2,727**	**12,757**	**4,511**	**81,447**	**105,004**
Additions	446	1,799	-	-	-	-	2,245
Acquisition of subsidiary (Note 25)	-	-	-	-	-	1,884	1,884
Acquisition of subsidiary (Note 25)	-	575	122	477	-	10,464	11,638
Effects of translation to presentation currency	3	(5)	(15)	132	46	748	909
As at 31 December 2021	**2,064**	**4,316**	**2,834**	**13,366**	**4,557**	**94,773**	**121,910**
Additions	114	6,188	-	-	-	-	6,484
Disposals	(2)	(722)	(2,680)	(12,864)	(4,557)	(59,614)	(80,387)
As at 31 December 2022	**2,176**	**9,782**	**154**	**502**	**-**	**35,159**	**47,773**
AMORTISATION AND IMPAIRMENT							
As at 1 January 2021	**929**	**161**	**962**	**584**	**196**	**-**	**2,832**
Charge for the year	385	255	957	2,642	901		5,140
Charge for the year – cost of sales	-	308	-	-	-	-	308
Impairment	-	-	-	-	-	16,809	16,809
Effects of translation to presentation currency	2	(2)	(20)	(2)	3	-	(19)
As at 31 December 2021	**1,316**	**722**	**1,899**	**3,224**	**1,100**	**16,809**	**25,070**
Charge for the year	390	201	44	179	-	-	814
Charge for the year – cost of sales	-	4,422	-	-	-	-	4,422
Impairment	-	-	-	125	-	-	125
Disposals	(2)	(648)	(1,851)	(3,110)	(1,100)	(16,809)	(23,520)
As at 31 December 2022	**1,704**	**4,697**	**92**	**418**	**-**	**-**	**6,911**
NET BOOK VALUE							
As at 31 December 2021	748	3,594	935	10,142	3,457	77,964	96,840
As at 31 December 2022	**472**	**5,085**	**62**	**84**	**-**	**35,159**	**40,862**

12. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The customer contracts represent contracted revenues acquired as part of business combinations, and customer relationships represent the expected future cash flows from revenues with existing customers that are uncontracted at the acquisition date. Where the impact of discounting is significant, the valuation used the discounted cash flow method, based on estimated operating business profit margins. The discount rate applied at the time to the future cash flows was 12.8%

Goodwill and other intangible assets have been tested for impairment. The method, key assumptions and results of the impairment review are detailed below:

Goodwill recognised at 31 December 2022 is attributed to one (FY21: two) cash generating unit – The UK operating businesses. The goodwill attributed to the US operating business was fully disposed in the year following the disposal of Pipeworks.

UK CGU

Goodwill and other intangible assets of the UK cash generating unit have been tested for impairment by assessing the value in use of the CGU. The value-in-use calculations were based on projected cash flows in perpetuity. Cash flows were based on a five-year forecast with variable growth rates reflecting the phasing of game launches over the 5 year forecast period. Subsequent years were based on a reduced rate of growth of 2.0% into perpetuity. These growth rates are based on past experience, and market conditions and discount rates are consistent with external information. The growth rates shown are the average applied to the cash flows of the individual CGUs and do not form a basis for estimating the consolidated profits of the Group in the future.

The discount rate used to test the cash generating units was a pre-tax WACC of 12.8% (2021: 12.1%).

As a result of these tests no impairment was considered necessary.

Management have performed sensitivity calculations of the impairment calculations to reduce cash flows by 25% and to increase the WACC by 5%. After applying these sensitivities, there remains significant headroom of cash flows over the carrying value of Goodwill.

All amortisation charges have been treated as an expense and charged to operating expenses in the income statement.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Fixtures and fittings	Computer hardware	Right of use asset	Total
	£'000	£'000	£'000	£'000	£'000
COST					
As at 1 January 2021	4,123	1,549	7,617	14,699	27,988
Additions	768	322	3,606	1,214	5,910
Acquisition of subsidiary	-	-	24	50	74
Acquisition of subsidiary	-	-	14	-	14
Effect of translation to presentation currency	8	(1)	(8)	29	28
As at 1 January 2022	**4,898**	**1,870**	**11,254**	**15,992**	**34,014**
Additions	1,131	236	3,312	836	5,515
Disposal of subsidiary (Note 25)	(1,162)	(172)	(1,492)	(3,524)	(6,350)
Effect of translation to presentation currency	(20)	-	(9)	(15)	(45)
As at 31 December 2022	**4,847**	**1,911**	**13,065**	**13,289**	**33,112**
DEPRECIATION					
As at 31 December 2020	**960**	**850**	**3,637**	**1,963**	**7,410**
Charge for the period	501	318	2,174	1,691	4,684
Effect of translation to presentation currency	-	(1)	10	(5)	4
As at 1 January 2022	**1,461**	**1,167**	**5,821**	**3,649**	**12,098**
Charge for the period	602	288	2,747	1,555	5,192
Effect of translation to presentation currency	-	-	(13)	(12)	(25)
Disposals	-	(22)	-	-	(22)
Disposal of subsidiary (Note 25)	(41)	(129)	(1,002)	(380)	(1,552)
As at 31 December 2022	**2,022**	**1,304**	**7,553**	**4,812**	**15,691**
NET BOOK VALUE					
As at 31 December 2021	3,438	703	5,433	12,343	21,916
As at 31 December 2022	**2,825**	**607**	**5,510**	**8,477**	**17,421**

Depreciation charges are allocated to operating expenses in the income statement.

14. INVESTMENTS

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

	Class of share capital held	Proportion held by the Group Direct	Indirect	Nature of Business
Project Republica Topco Limited	Ordinary	100%	-	Holding Group
Project Republica Bidco Limited	Ordinary	-	100%	Holding Group
Sumo Digital Holdings Limited	Ordinary	-	100%	Holding Group
Sumo Digital Group Limited	Ordinary	-	100%	Holding Group
Sumo Digital Entertainment Limited	Ordinary	-	100%	Holding Group
Sumo Digital Limited	Ordinary	-	100%	Video game development
Sumo Digital (Genus) Limited	Ordinary	-	100%	Video game development
Cirrus Development Limited	Ordinary	-	100%	Video game development
Aghoco 1337 Limited	Ordinary	-	100%	Employee benefit trust trustee
Mistral Entertainment Limited	Ordinary	-	100%	Video game development
Sumo Video Games Private Limited	Ordinary	-	100%	Video game development
Sumo Games Development Limited	Ordinary	-	100%	Video game development
Atomhawk Design Limited	Ordinary	-	100%	Visual design
Atomhawk Canada Limited	Ordinary	-	100%	Visual design
The Chinese Room Limited	Ordinary	-	100%	Video game development
Riverside Games Limited	Ordinary	-	100%	Dormant
Sumo Digital (Chili) Limited	Ordinary	-	100%	Video game development
Sumo Digital (Locus) Limited	Ordinary	-	100%	Video game development
Red Kite Games Limited	Ordinary	-	100%	Video game development
Red Kite Software Development Limited	Ordinary	-	100%	Video game development
Lab42 Limited	Ordinary	-	100%	Video game development
Auroch Digital (Coco) Limited	Ordinary	-	100%	Video game development
AGHOCO 1952 Limited	Ordinary	-	100%	Dormant
Secret Mode Limited	Ordinary	100%	-	Video game publishing
Pacman Finco Limited	Ordinary	100%	-	Financing Group
Auroch Digital Limited	Ordinary	100%	-	Video game development
PixelAnt Games sp. Z.o.o.	Ordinary	-	100%	Video game development
PixelAnt Games (Czech Republic) s.r.o	Ordinary	-	100%	Video game development
Timbre Games Studio Inc.	Ordinary	-	100%	Video game development

All the companies listed above are incorporated in England and Wales, and have a registered address of 32 Jessops Riverside, Brightside Lane, Sheffield, S9 2RX, with the following exceptions:

Group	Country of Incorporation	Address
Sumo Video Games Private Limited	India	MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chattushringi, Gokhalenagar, Pune, Maharashtra 411016
Atomhawk Canada Limited	Canada	Suite 678, 999 Canada Place, Vancouver, British Columbia, V6C 3E1
PixelAnt Games sp. Z.o.o.	Poland	Wroclaw, at ul. Agrestowa 131 BC/1, 53-035 Warsaw
Timbre Games Studio Inc.	Canada	200-112 West Hastings Street, Vancouver, British Columbia, V6B 1G8
PixelAnt Games (Czech Republic) s.r.o	*Czech Republic*	*V Celnici 1031/4, 110 00 Prague 1, Czech Republic*

There are no restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group's subsidiaries.

15. TRADE AND OTHER RECEIVABLES

	As at 31 December 2022	As at 31 December 2021
	£'000	£'000
Amounts falling due within one year:		
Trade receivables not past due	**9,537**	7,158
Trade receivables not past due – subsidiaries of ultimate Parent	**9,608**	-
Trade receivables past due	**441**	2,315
Trade receivables total	**19,586**	9,473
Prepayments	**2,543**	2,284
Other debtors	**759**	1,005
VGTR recoverable	**15,056**	9,434
Contract assets – amounts recoverable on contracts	**8,667**	15,742
Contract assets – amounts recoverable on contracts – subsidiaries of Parent	**548**	-
Total trade and other receivables	**47,159**	37,938
Total receivables	**47,159**	37,938

Trade and other receivables are all current and any fair value difference is not material. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses in cases where the credit risk on trade and other receivables has increased significantly since initial recognition. In cases where the credit risk has not increased significantly, the Group measures the loss allowance at an amount equal to the 12-month expected credit loss. This assessment is performed on a collective basis considering forward-looking information.

Movements on the Group's provision for impairment of trade receivables are as follows:

	2022	2021
	£'000	£'000
At beginning of period	5	10
Provision for receivables impairment	26	-
Unused amounts reversed	-	(5)
At 31 December	31	5

The creation and release of provision for credit losses have been included in 'other expenses' in the income statement (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and therefore no provisions for credit losses have been recorded. The Group contracts with clients with very low credit risk and the history of credit losses has been negligible, as demonstrated by the tables above. With this in mind, there are not considered to be any significant degree of judgement in the calculation of credit loss provisions.

16. CASH AND CASH EQUIVALENTS

	2022 £'000	2021 £'000
Cash and cash equivalents		
Cash at bank and in hand	43,883	17,321

17. TRADE AND OTHER PAYABLES

	2022	2021
	£'000	£'000
Trade payables	5,510	4,507
Contract liabilities	1,745	4,136
Contract liabilities – subsidiaries of Parent	114	-
Other tax and social security	2,347	1,359
VGTR to be reimbursed to customers	9,309	5,502
Provision for national insurance on share-based payments	91	5,110
Other payables and accruals	13,736	10,812
	32,851	31,426

The fair value of the financial liabilities approximates their carrying value due to short maturities.

18. LEASES

IFRS 16 Lease liability

The leases held by the Group relate to leased land and buildings, plant and machinery and motor vehicles, as set out below. There are no variable lease payments, extension or termination options or residual value guarantees and there are no leases not yet commenced to which the Group is committed.

Amounts recognised in the Consolidated Statement of Financial Position

The balance sheet shows the following amounts relating to leases:

	31 December 2022 £'000	31 December 2021 £'000
Right of use assets		
Leased land and buildings	**8,477**	12,343

These are included within "Property, plant and equipment" in the Consolidated Statement of Financial Position.

	31 December 2022 £'000	31 December 2021 £'000
Lease liabilities		
Maturity analysis		
Within one year	**1,627**	1,538
In one to five years	**6,044**	6,999
In more than five years	**1,971**	4,954
Total lease liabilities	**9,642**	13,491
Current	**1,627**	1,538
Non-current	**8,015**	11,953

Amounts recognised in the Consolidated Income Statement

The Consolidated Income Statement shows the following amounts relating to leases:

	31 December 2022 £'000	31 December 2021 £'000
Depreciation charge of right of use assets		
Leased land and buildings	1,555	1,691
	1,555	1,691
Interest expense (included in finance costs)	246	271
Expenses relating to short term/low value leases (included in direct costs / operating expenses)	274	236

19. SHARE-BASED PAYMENTS

Prior to the acquisition of the Group by Tencent on 17 January 2022, the Group operated two equity-settled share based payment plans; a Long Term Incentive Plan ('LTIP') and Share Incentive Plan ('SIP'). On acquisition of the Group by Tencent, the vesting of all outstanding LTIP shares were accelerated and all options were exercised on 17 January 2022. The total number of options vested and exercised is as follows:

	31 December 2022 Number of shares	31 December 2021 Number of shares
At 1 January	**7,624,815**	10,081,153
Granted in the year	-	1,283,380
Exercised in the year	**(7,624,815)**	(3,562,827)
Lapsed/forfeited in the year - leavers	-	(176,891)
At 31 December	-	7,624,815

In order to satisfy the vested options, 3,305,421 shares held in the Group's two Employee Benefit Trusts were transferred to participants.

At 31 December 2021, the Group had issued 133,941 matching shares under the SIP scheme which were conditional on length of service. On 17 January 2022 all SIP matching awards vested with participants.

In 2021, the Group recognised total expenses of £9,699,000 in respect of equity-settled share based payment transactions, reflecting management's expectation that all options would vest on 17 January 2022. Further charges of £430,000, including £80,000 of national insurance costs, were recognised in 2022 in respect of these schemes for the period from 1-17 January 2022.

Following the acquisition of the Group by Tencent, in November 2022 certain employees were granted share-based payment awards settled in Tencent equity instruments. The Group recognised total expenses of £983,000 in respect of these transactions in the year ended 31 December 2022 of which £120,000 related to accrued national insurance costs and £605,000 was recognised as a capital contribution in equity.

The total expenses recognised in respect of the two schemes was £1,413,000 (2021: £9,699,000)

The Sumo Group limited Tencent Long Term Incentive Plan (the 'Share LTIP')

The Group's ultimate parent entity, Tencent Holdings Limited, operates a long-term incentive plan for senior employees. During the year awards were made to certain Directors and employees of the Group.

The vesting of these awards is subject only to continued employment with the Group. There are no other performance targets associated with the awards.

Details of the maximum total number of ordinary shares, which may be issued in future periods in respect of the awards are as follows:

	31 December 2022 Number of shares	31 December 2021 Number of shares
At 1 January	-	-
Granted in the year	**133,400**	-
Exercised in the year	-	-
Lapsed/forfeited in the year - leavers	-	-
At 31 December	**133,400**	-

The fair value of the services received in return for the awards is measured as the market value at grant date. The fair value of awarded shares during the year was £32.12.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2022 was 1.3 years.

20. DEFERRED TAX

	31 December 2022	31 December 2021
	£'000	*£'000*
Asset at beginning of period	**2,825**	5,349
Debit to income statement	**(1,013)**	(1,290)
Debit to equity	**(1,053)**	(951)
Adjustments in respect of prior periods	**(79)**	(31)
Foreign exchange adjustments	**(89)**	42
On acquisition of subsidiary	-	(294)
Asset at 31 December	**590**	2,825

The deferred tax asset relates to the following:

On losses	**701**	-
Intangible assets arising on acquisition of a subsidiary	**(111)**	(217)
On share-based payments and other timing differences	-	3,042
	590	2,825

	31 December 2022	31 December 2021
	£'000	£'000
Liability at beginning of period	**3,496**	5,037
On disposal of subsidiary	**(3,763)**	-
Credit to income statement	**267**	(1,541)
Credit to equity	-	(51)
Foreign exchange adjustments (in equity)	-	51
Liability at 31 December	-	3,496

The deferred tax liability relates to the following:

Accelerated capital allowances on property, plant & equipment	-	131
Intangible assets arising on acquisition of a subsidiary	-	3,854
On share-based payments and other timing differences	-	(489)
	-	3,496

Deferred tax assets have been recognised up to the value of deferred tax liabilities recognised in the period and the availability of losses to carry back and offset against the prior year's tax liability totalling £590,000.

The Group has unrecognised deferred tax assets of £16,073,000 relating to estimated gross tax adjusted losses of £63,376,000 and share options of £915,000. (2021: deferred tax assets on losses of £10,787,000). Deferred tax assets are unrecognised due to uncertainty over the timing of taxable profits beyond the Group's 3 year forecast to 31 December 2025.

21. BORROWINGS

Following amendments to the Group's banking facility, at 31 December 2022 the Group held an Overdraft Facility of £3,000,000 (2021: £3,000,000) and a Revolving Credit Facility with Clydesdale Bank plc of up to £12,000,000 (£42,000,000). All borrowings were repaid during 2022.

22. FINANCIAL RISK MANAGEMENT

The Group uses various financial instruments. These include loans, cash, forward foreign exchange contracts, issued equity investments and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Market risk

Market risk encompasses three types of risk, being currency risk, interest rate risk and price risk. In this instance *price risk has been ignored as it is not considered a material risk to the business. The Group's policies for managing* interest rate risk are set out in the subsection entitled "interest rate risk" below.

Currency risk

The Group contracts with certain clients in Euros and US Dollars and manages this foreign currency risk using forward foreign exchange contracts which match the expected receipt of foreign currency income. The Group is exposed to currency risk on the retranslation of its foreign operations. The Group manages this risk via foreign currency borrowings which partially offset the external net assets of these foreign operations.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs by closely managing the cash balance and by investing cash assets safely and profitably.

The Group policy throughout the period has been to ensure continuity of funding. Short-term flexibility is achieved by revolving working capital facilities.

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2022	£'000	£'000	£'000	£'000
Borrowings	-	-	-	-
IFRS16 lease liabilities	1,627	1,683	4,361	1,971
Trade and other payables	32,850	-	-	-
Foreign currency forward contracts	21	40	12	-

22. FINANCIAL RISK MANAGEMENT (continued)

At 31 December 2021	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	4,081	-	-	-
IFRS16 lease liabilities	1,538	1,723	4,954	5,276
Trade and other payables	31,426	-	-	-
Foreign currency forward contracts	(314)	-	-	-

Interest rate risk

The Group finances its operations through retained profits. The Directors' policy to manage interest rate fluctuations is to regularly review the costs of capital and the risks associated with each class of capital, and to maintain an appropriate mix between fixed and floating rate borrowings.

Sensitivity to interest rate fluctuations

The Group has no drawn down interest bearing debt facilities (2021: 4,081,000) at the balance sheet date therefore there is no risk to interest rate fluctuations.

Credit risk

The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is limited, as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from the Group's trade receivables and contract assets. In order to manage credit risk the Directors set limits for clients based on a combination of payment history and third party credit references. Client credit limits and contract assets are reviewed on a regular basis in conjunction with debt ageing and collection history.

The Directors consider that certain of the Group's trade receivables were impaired for the period ended 31 December 2022 and, accordingly, a provision of £31,000 has been recognised. See Note 15 for further information on financial assets that are past due.

Changes in liabilities arising from financing activities

	As at 31 December 2021	Cash flows	Foreign exchange movements	Disposal of subsidiary	New leases	Inte-rest	Other	**As at 31 December 2022**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Borrowings	4,081	(4,529)	448	-	-	-		-
Current lease liabilities	1,538	(1,693)	(4)	(285)	117	246	1,708	**1,627**
Non-current lease liabilities	11,953	-	-	(2,949)	719	-	(1,708)	**8,015**
	17,572	(6,222)	444	(3,234)	836	246	-	**9,642**

Following amendments to the Group's banking facility, at 31 December 2022 the Group held an Overdraft Facility of £3,000,000 (2021: £3,000,000) and a Revolving Credit Facility with Clydesdale Bank plc of up to £12,000,000 (£42,000,000). All borrowings were repaid during 2022

22. FINANCIAL RISK MANAGEMENT (continued)

Remeasurements of lease liabilities relate to changes in the cash rental payments due on the lease.

The 'other' column includes the reclassification of leases from non-current due to the passage of time and the accrual of interest on lease liabilities.

Summary of financial assets and liabilities by category

The carrying amount of financial assets and liabilities recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	As at 31 December 2022	As at 31 December 2021
	£'000	£'000
Financial assets		
Trade and other receivables	**19,586**	9,473
Amounts recoverable on contracts	**9,215**	15,742
VGTR recoverable	**15,056**	9,434
Cash and cash equivalents	**43,883**	17,321
	87,740	51,970
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	**(22,829)**	(22,316)
Short-term borrowings	**-**	*(4,081)*
IFRS 16 lease liabilities	**(9,642)**	(13,491)
	(32,471)	(39,888)
Financial liabilities measured at fair value		
Contingent consideration payable	**(6,781)**	(23,951)
Net financial assets and liabilities	**48,488**	(11,869)
Non-financial assets and liabilities		
Plant, property and equipment	**17,421**	21,916
Goodwill	**35,159**	77,964
Other intangible assets	**5,703**	18,876
Prepayments	**2,543**	2,284
Other debtors	**759**	1,006
Trade and other payables	**(10,022)**	*(9,110)*
Corporation tax (payable)/receivable	**71**	(295)
Deferred tax	**590**	(671)
	52,224	111,970
Total equity	**100,712**	100,101

Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

22. FINANCIAL RISK MANAGEMENT (continued)

This is achieved through close management of working capital and regular reviews of pricing. Decisions on whether to raise funding using debt or equity are made by the Board based on the requirements of the business.

Capital for the reporting period under review is shown as total equity in the table above.

23. SHARE CAPITAL AND RESERVES

	Ordinary shares 0.01	Share Capital £'000	Share Premium £'000
At 31 December 2021	171,463,123	1,715	83,009
Accelerated shares issued	3,282,940	33	16,810
Issue of shares in year - Shares issued on LTIP exercise	4,319,394	43	-
At 31 December 2022	**179,065,457**	**1,791**	**99,819**

Share capital represents the nominal value of shares that have been issued. During the year 3,282,940 shares were issued in settlement of the deferred consideration on the acquisition of Pipeworks and 4,319,394 shares were issued in settlement of awards under the Group LTIP scheme.

Share premium includes any premiums received on 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

The reverse acquisition reserve was created as a result of the share for share exchange under which Sumo Group plc became the parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group financial statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Group as if it had always existed, with the difference presented as the reverse acquisition reserve.

The merger relief reserve represents the difference between the fair value and nominal value of shares issued on acquisition of a Group subsidiary.

The foreign currency translation reserve represents the exchange differences on retranslation of foreign operations.

The own shares reserve represents the cost of purchasing the Group's own shares. As at 31 December 2021, 3,305,421 shares with a value of £7,199,000 in the own shares reserve were held by the Group's two Employee Benefit Trusts. During the year, all these shares were transferred to beneficiaries to satisfy share options exercised on accelerated vesting of the Group's share option scheme following the acquisition of the Group by Tencent.

The capital contribution reserve represents the fair value of Share based payment awards granted to the Group's employees directly from Tencent which are presented as a contribution from the ultimate Parent. During the year an IFRS2 charge of £605,000 was reflected in the capital contribution reserve. See note 19 for details of the scheme.

24. CONTROLLING PARTY and RELATED PARTY TRANSACTIONS

Ultimate Controlling Party

Following 17 January 2022, the ultimate parent undertaking and controlling party became Tencent Holdings Limited, through its indirect wholly owned subsidiary, Sixjoy Hong Kong Limited.

Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

During the year the Group recognised revenue of £27,491,000 which was derived from subsidiaries of Tencent Holdings Limited. At 31 December 2022 the Group recognised Deferred income of £114,000 and accrued income of £548,000 in relation to this income. The outstanding debtor balance at the balance sheet date from subsidiaries of Tencent Holdings Limited was £9,608,000.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

In November 2022 certain employees were granted share-based payment awards settled in Tencent Holdings Limited equity instruments, further details of which are disclosed in Note 19. A capital contribution of £605,000 from the parent company was recognised in respect of these transactions.

Key management compensation is disclosed in Note 5.

25. BUSINESS COMBINATIONS

Disposal of Pipeworks

On 17th January 2022, the acquisition of the Group by Tencent Holdings Limited through its indirect wholly owned subsidiary, Sixjoy Hong Kong Limited, was completed.

Immediately following the acquisition, Sumo Group Limited's entire shareholding in Pipeworks, Inc was transferred to a Voting Trust as part of the implementation of arrangements to satisfy the mitigations required by the Committee on Foreign Investment in the United States (CFIUS), and on 29 June 2022, the entire shareholding of Pipeworks, Inc and it's holding company Pacman Acquisition Sub, Inc were sold. Following the transfer of Pipeworks to the Voting Trust on 17 January 2022, the Group did not exert control over the Pipeworks Group. The results of the Pipeworks Group are therefore not consolidated from that date.

At the date of loss of control, the Pipeworks Group was disposed from the Group and recognised as an investment on the Group balance sheet at its' fair value, calculated at expected future sales proceeds less costs to sell. The fair value was remeasured at each balance sheet date. As the future expected disposal proceeds were denominated in US Dollars, a resulting foreign exchange movement was recognised in the Group Income Statement prior to the date of disposal.

The total impact of the disposal transaction on the Group Income Statement is set out below:

	2022
	£'000
Fair value of expected disposal consideration less costs to sell	**45,785**
Carrying amount of net assets sold (including Goodwill)	(56,232)
Loss on disposal	**(10,443)**
Reclassification of foreign exchange reserve	1,620
Other foreign exchange movements on disposal transactions	1,042
Net loss in Income Statement	**(7,781)**

Acquisition of Pixelant Games

During the year, the Group paid £500,000 of contingent consideration in respect of the acquisition of Pixelant Games SP z.o.o in 2021.

Contingent Consideration

Movements on the contingent consideration liabilities are presented below.

	Pipeworks £'000	Pixelant Games £'000	Auroch Digital £'000	**Total Consideration £'000**
Balance at 31 December 2021	**16,840**	**1,709**	**5,401**	**23,950**
Interest unwind	3	36	135	**174**
Consideration issued as shares	(16,843)	-	-	**(16,843)**
Consideration paid in cash	-	(500)	-	**(500)**
Balance at 31 December 2022	**-**	**1,245**	5,536	**6,781**
Current	-	1,245	-	**1,245**
Non-current	-	-	5,536	**5,536**

26. POST BALANCE SHEET EVENTS

There have been no events to note since the balance sheet date.

27. ALTERNATIVE PERFORMANCE MEASURES

The Group reports certain alternative performance measures (APMs) that management believes provide valuable additional information for the users of this report to understand the underlying trading performance of the business. In particular, Adjusted EBITDA is used to provide the users of the accounts a clear understanding of the underlying profitability of the business over time. These APMs, described below, are not GAAP measures as defined by IFRS. A reconciliation of statutory profit to underlying profit is provided below.

Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) also excludes:

- Share based payments charges of £1,413,000 (2021: 9,699,000).
- Foreign currency derivative contracts loss of £386,000 (2021: loss of £555,000). This adjustment represents net gains or losses on economic foreign currency hedges, recognised at fair value within statutory operating profit, but which are not yet realised through actual currency receipts. These gains or losses are excluded from Adjusted EBITDA, which recognises profit on economic foreign currency hedges at a constant currency hedged rate and includes only gains and losses on realised currency receipts.
- Exceptional costs of £23,962,000 (2021: £19,565,000) for professional advisor fees associated with acquisitions, impairment and gains and losses on the disposal of subsidiaries
- Fair value movements on contingent consideration loss of £nil (2021: gain of £15,225,000) associated with acquisitions.
- Investment in co-funded games credit of £498,000 (2021: £1,241,000 credit), being the Group's contribution to the cost of developing games which are co-funded with clients, and which are required to be expensed under IFRS, offset by the unwind of any such costs adjusted in previous periods on games which have subsequently launched.

Adjusted EBITDA also includes:

- Operating lease costs capitalised under IFRS16 of £1,703,000 (2021: £1,831,000) which represents the rental costs payable on leases applied on a straight-line basis over the life of the lease.

Adjusted profit before tax

Adjusted profit before tax excludes share-based payment charges, exceptional costs, fair value movements on contingent consideration, impairment and investment in co-funded games expensed, and includes operating lease costs, as described above.

28. SECTION 479A COMPANIES ACT EXEMPTION

The company has provided a guarantee in respect of the outstanding liabilities of the subsidiary undertakings listed in note 26 in accordance with sections 479A - 479C of the Companies Act 2006, as these UK subsidiary companies of the Group are exempt from the requirements of the Companies Act 2006 relating to the audit of financial statements by virtue of section 479A of this Act.

Name of subsidiary	Registered number
Project Republica Topco Limited	10347606
Project Republica Bidco Limited	10348109
Sumo Digital Holdings Limited	09155970
Sumo Digital Group Limited	09155980
Sumo Digital Entertainment Limited	06328045
Sumo Digital Limited	04703224
Aghoco 1337 Limited	09772405
Mistral Entertainment Limited	06533356
Sumo Video Games Private Limited	(Indian Trade)
Atomhawk Design Limited	06968171
Atomhawk Canada Limited	BC1116433
The Chinese Room Limited	07372832
Riverside Games Limited	11649742
Red Kite Games Limited	07911481
Red Kite Software Development Limited	11564865
Lab42 Limited	09381660
AGHOCO 1952 Limited	12912534
Secret Mode Limited	12912552
Auroch Digital Limited	07389229
Secret Mode Limited	12939079

Parent Company Balance Sheet

as at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Investments – shares in subsidiary undertakings	3	**117,862**	177,244
		117,862	177,244
Current assets			
Trade and other receivables	5	**30,290**	30,440
Cash and cash equivalents		**16,476**	81
		46,766	30,521
Current liabilities			
Trade and other payables	6	**545**	24,059
Contingent consideration payable	6	**1,245**	17,341
		1,790	41,400
Net current assets/(liabilities)		**44,976**	(10,879)
Non-current Liabilities			
Contingent consideration payable	6	**(5,536)**	(6,609)
Net assets		**157,303**	159,756
Capital and reserves			
Called up share capital	7	**1,791**	1,715
Share premium	7	**99,819**	83,009
Merger relief reserve		**590**	590
Retained earnings		**55,103**	74,442
Total shareholders' funds		**157,303**	159,756

The Company loss for the year was £19,752,000 (2021: loss of £22,770,000).

The Company financial statements on pages 56 to 61 were approved by the Board of Directors on 20 June 2023 and were signed on its behalf by:

A M D Stewart
Director

The notes on pages 58 to 61 form part of these Company financial statements.

Parent Company Statement of Changes in Equity

for the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Shares to be issued £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2020	**1,693**	**81,574**	**590**	-	**90,788**	**174,645**
Loss for the year	-	-	-	-	**(22,770)**	**(22,770)**
Exchange differences on retranslation of foreign operations	-	-	-	-	**(64)**	**(64)**
Total comprehensive income for the year	-	-	-	-	**(22,834)**	**(22,834)**
Transactions with owners:						
Issue of shares	**22**	**1,435**	-	-	-	**1,457**
Share-based payments transactions	-	-	-	-	**6,488**	**6,488**
Balance at 31 December 2021	**1,715**	**83,009**	**590**	-	**74,442**	**159,756**
Loss for the year	-	-	-	-	**(19,752)**	**(19,752)**
Exchange differences on retranslation of foreign operations	-	-	-	-	**(119)**	**(119)**
Total comprehensive income for the year	-	-	-	-	**(19,871)**	**(19,871)**
Transactions with owners:						
Issue of shares	**76**	**16,810**	-	-	-	**16,885**
Share-based payments transactions	-	-	-	-	**532**	**532**
Balance at 31 December 2022	**1,791**	**99,819**	**590**	-	**55,103**	**157,303**

The notes on pages 58 to 61 form part of these Company financial statements.

Notes to the Parent Company Financial Statements

for the year ended 31 December 2022

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

Sumo Group Limited (the 'Company') is registered in England and Wales as a public limited company. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activity of Sumo Group Limited and its subsidiaries (together the 'Group') is that of video games development. The principal activity of the Company is that of a holding company.

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101), on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. The principal accounting policies, which have been applied consistently to all the years presented, are set out below.

The following exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 11 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 7 "Statement of Cash Flows";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" – the requirement to disclose related party transactions between two or more members of a group.

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

- IFRS 2 "Share-Based Payments" in respect of Group settled equity share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and disclosures required by IFRS 7 "Financial Instruments: Disclosures"

Company profit and loss account

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's loss for the year was £19,424,000 (2021: loss of £22,770,000) There are no material differences between the profit after taxation in the current and prior year and its historical cost equivalent. Accordingly, no note of historical cost profits and losses has been presented.

Dividend distribution

The distribution of a dividend to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which it is approved by the Company's shareholders.

Investment in subsidiary undertakings

Investments in Group undertakings are stated at cost, unless their value has been impaired in which case they are valued at the lower of their realisable value or value in use.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:

- the initial recognition of goodwill where the initial recognition exemption applies;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Share-based payments

The parent company has granted rights to its equity instruments to the employees of its subsidiaries. The share-based payment charge is recorded in profit or loss of the subsidiary company in respect of these arrangements. The parent company has recorded these transactions within cost of investment with the credit recorded within equity.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of issue.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

Trade and other payables

Trade payables are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method.

Critical accounting estimates and judgements

The critical accounting estimates set out in the Group accounts also apply to the Company.

2. REMUNERATION OF DIRECTORS AND AUDITORS

Details of Directors' remuneration are shown in the Directors' Remuneration Report of the Group financial statements. Details of auditor remuneration are shown in Note 10 of the Group financial statements.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'000
Cost and carrying amount	
At 31 December 2020	**181,088**
Share options granted to subsidiary employees	6,694
Investments in subsidiaries	13,223
Impairment	(23,761)
At 31 December 2021	**177,244**
Share options granted to subsidiary employees	346
Capital Contribution to Employee Benefit Trusts	10,506
Impairment of Investments in Employee Benefit Trusts	(10,506)
Disposal of Pipeworks	(30,568)
Impairment of Investment in Pacman Finco Limited	(29,159)
At 31 December 2022	**117,862**

During the year, the following transactions took place in respect of the Company's Investments:

- The Group disposed of Pipeworks, Inc and Pacman Acquisition Sub, Inc. Details of the Group's net loss on the disposal transaction can be found in Note 25 to the Group financial statements
- The Company made capital contributions to its two Employee Benefit Trusts during the year. The contributions were used by the Trusts to repay intercompany loans due to the Company which had previously been provided against in full. Following the repayment of the loans, the Employee Benefit Trusts were wound up and the Company impaired its investments in the Trusts.
- During the year, the Company's subsidiary Pacman Finco Limited undertook a capital reduction exercise, and paid a dividend to the Company of £36.3m. Following the payment of the dividend, Pacman Finco had net assets of £nil. The Company's investment in Pacman Finco Limited was impaired in full.

An impairment review has been carried out at 31 December 2022 to assess the carrying value of remaining investments to reflect management's latest forecasts and current economic conditions. The results of the review indicated that the present carrying value of all investments is supportable based on future profitability. As a result, no further impairment charge has been recognised at 31 December 2022. Details of the basis of the assessment and key assumptions are provided in Note 12 to the Group accounts.

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as set out in Note 14 to the Group accounts.

4. Deferred tax

	2022 **£'000**	2021 £'000
Losses	-	-

The tax charge recognised in the company income statement for the year was £Nil (2021: charge of £119,000)

5. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Amounts owed by Subsidiaries	**29,877**	30,036
Prepayments and accrued income	**384**	217
VAT debtor	**29**	187
Corporation tax	-	-
	30,290	30,440

All of the amounts owed by Group undertakings shown above are repayable on demand.

6. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2022 £'000	2021 £'000
Trade payables	**215**	641
Amounts owed to Subsidiaries	**262**	23,363
Accruals	**69**	55
Contingent consideration payable	**1,245**	17,341
	1,790	41,400
Amounts falling due after more than one year		
Contingent consideration payable	**5,536**	6,609

Contingent consideration payable relates to additional consideration which may be due on the acquisition by the Sumo Group of Pixelant Games s.p. z.o.o. and Auroch Digital Limited which both took place in 2021 (2021: consideration due on the acquisition of Pipeworks, Inc, Pixelant Games s.p. z.o.o. and Auroch Digital Limited).

7. SHARE CAPITAL AND RESERVES

Details of movements in shares are set out in Note 23 to the Group financial statements.

8. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption included in FRS101 Reduced Disclosure Framework to not disclose details of transactions with Group undertakings, on the grounds that it is the parent company of a Group whose accounts are publicly available.