Company Registration No. 07057499 (England and Wales)

Playground Games Limited

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

Playground Games Limited

Company information

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

Playground Games Limited

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Strategic report
For the year ended 31 December 2019

The directors present the strategic report for the year ended 31 December 2019.

Fair review of the business
The primary purpose of Playground Games Limited is the writing and development of video games software.

In the year ended 31 December 2019 the Company continued development on Forza Horizon 4 with monthly content releases including Lego Speed Champions, which continues to be very successful. The Company continued development on the previously unannounced project, Fable and started work on a new unannounced project.

The Company opened it's second studio, St Albans House, to staff in March 2019. The significant increase in fixed assets net book value from £3,560,504 (2018) to £6,476,926 (2019) during the year is attributable to this studio.

Gross profit margin for the year increased from 16.26% (2018) to 37.86% (2019) due to the change in structure with Microsoft Corporation. Turnover for 2019 represents a full year of commission received from the ultimate parent undertaking.

Administrative expenses increased from £5,597,508 (2018) to £8,483,613 (2019) during the year due to the costs of running a second studio.

Other gains and losses from 2018 have not recurred this year as these were as a result of the acquisition of the company by Microsoft Corporation, and hence one-off events.

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

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

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

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

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

Principal risks and uncertainties

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

Credit risk

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

Liquidity risk

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

Market risk

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

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

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

COVID-19

In March 2020, the World Health Organisation declared the outbreak of COVID-19 to be a pandemic. The pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets and business practices.

Global and local management teams in Microsoft continue to monitor the COVID-19 situation closely and to anticipate and react to evolving circumstances. To protect the health and well-being of our employees, suppliers, and customers, Microsoft have made substantial modifications to employee travel policies, implemented office closures as employees are advised to work from home, and cancelled or shifted our conferences and other marketing events to virtual-only through fiscal year 2021.

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

Management expects no significant change in the Company's activities. As such, this is deemed to be a non adjusting event.

Strategy, objectives and business model

The directors have not presented a separate analysis of the strategy, objectives or business model of the Microsoft group because this analysis will be disclosed as part of the Microsoft Corporation consolidated Form 10-K for the year ended 30 June 2019, which are publicly available.

Approved on behalf of the board

....
Benjamin Orndorff
Director

Date: 22 December 2020

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

Directors' responsibilities statement

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

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

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

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

Results and dividends

The results for the year are set out on page 10.

No ordinary dividends were paid (2018: £5,486,680). The directors do not recommend payment of a final dividend.

Directors

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

Benjamin Orndorff
Keith Dolliver

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

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

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

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

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

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

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

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

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

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

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

Playground Games Limited

Directors' report (continued)
For the year ended 31 December 2019

Approved on behalf of the board

....
Benjamin Orndorff
Director

Date: 22 December 2020

Independent auditor's report
To the member of Playground Games Limited

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

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

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

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

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Julian Rae (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditors
Reading, United Kingdom
22 December 2020

Playground Games Limited

Statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 £	2018 £
Turnover	4	24,443,740	27,112,145
Cost of sales		(15,188,248)	(22,702,378)
Gross profit		9,255,492	4,409,767
Administrative expenses		(8,483,613)	(5,597,508)
Operating profit/(loss)	5	771,879	(1,187,741)
Interest receivable and similar income	8	205,639	180,249
Interest payable and similar expenses	9	(38,731)	(12,681)
Other gains and losses		-	30,170,102
Profit before taxation		938,787	29,149,929
Tax on profit	10	(210,654)	(5,575,733)
Profit for the financial year		728,133	23,574,196

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

There was no other comprehensive income for 2019 (2018: £NIL).

The notes on pages 13 to 27 form part of these financial statements.

Playground Games Limited

Balance sheet
As at 31 December 2019

		2019		2018	
	Notes	**£**	**£**	**£**	**£**
Fixed assets					
Tangible assets	11		6,476,926		3,560,504
Investments	12		1		1
			6,476,927		3,560,505
Current assets					
Debtors: amounts falling due within one year	14	25,762,828		33,452,701	
Cash at bank and in hand		963,331		1,199,445	
		26,726,159		34,652,146	
Creditors: amounts falling due within one year	15	(2,893,699)		(8,631,397)	
Net current assets			23,832,460		26,020,749
Total assets less current liabilities			30,309,387		29,581,254
Capital and reserves					
Called up share capital	17		14,280		14,280
Profit and loss account			30,295,107		29,566,974
Total equity			30,309,387		29,581,254

The notes on pages 13 to 27 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 22 December 2020 and are signed on its behalf by:

....
Benjamin Orndorff
Director

Company Registration No. 07057499

Playground Games Limited

Statement of changes in equity
For the year ended 31 December 2019

	Notes	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2018		14,280	11,479,458	11,493,738
Comprehensive income for the year				
Profit for the year		-	23,574,196	23,574,196
Total comprehensive income for the year		-	23,574,196	23,574,196
Dividends		-	(5,486,680)	(5,486,680)
At 1 January 2019		14,280	29,566,974	29,581,254
Comprehensive income for the year				
Profit for the year		-	728,133	728,133
Total comprehensive income for the year		-	728,133	728,133
At 31 December 2019		14,280	30,295,107	30,309,387

The notes on pages 13 to 27 form part of these financial statements.

1 General information

Playground Games Limited is incorporated in the United Kingdom and registered in England and Wales. The registered office is The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS.

2 Accounting policies

2.1 Basis of preparation

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

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

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

2.2 Consolidation

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

The information is included in the consolidated financial statements of Microsoft as at 30 June 2019 and these financial statements may be obtained from the Investor Relations Department, Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.

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

2.3 Going concern

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

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

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

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

2 Accounting policies (continued)

2.4 Turnover

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

Pre-Acquisition turnover is measured at the fair value of consideration received or receivable for services rendered, net of discounts and value added tax.

Revenue from rendering of services is measured by reference to the milestones agreed in the contract and an estimate is made where a milestone is in progress and not yet completed provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that is recoverable.

Revenue from royalties is recognised as earned in accordance with the criteria in the related contracts, based on sales levels of the games achieved in the period and is as advised by the third party in accordance with the contract between the Company and the third party.

2.5 Taxation

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

Current tax

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

Deferred tax

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

2.6 Foreign currencies

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

2 Accounting policies (continued)

2.7 Operating leases

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

2.8 Tangible fixed assets

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

Depreciation

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

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

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

2.9 Fixed asset investments

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

Impairment

A review of indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

When it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflow that are largely independent of the cash inflows from other assets or group of assets.

2 Accounting policies (continued)

2.10 Hire purchase and finance leases

Assets held under finance leases are recognised in the Statement of Financial Position as assets and liabilities at the lower of the fair value of the assets and the present value of the minimum lease payments, which is determined at the inception of the lease term. Any initial direct costs of the lease are added to the amount recognised as an asset.

Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability using the effective interest method. Finance charges are allocated to each period so as to produce a constant rate of interest on the remaining balance of the liability.

2.11 Provisions

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

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

2.12 Defined contribution plans

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

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

2 Accounting policies (continued)

2.13 Financial reporting standard 102 - reduced disclosure exemptions

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

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

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Microsoft Corporation as at 30 June 2019. These financial statements are available to the public and can be obtained as set out in note 22.

2.14 Cash and cash equivalents

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

2.15 Financial instruments

Financial assets and liabilities are recognised in the Company's Balance Sheet when the Company becomes party to the contractual provision of the instrument. Because of their short term nature the carrying amount of receivables and payables approximates their fair value. Third-party and intercompany payables and receivables are initially recognised at fair value and subsequently at amortised cost less any provision for impairment.

Other financial assets

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

2 Accounting policies (continued)

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Other financial liabilities

Other financial liabilities, including debt instruments that do not meet the definition of a basic financial instrument, are measured at fair value through profit or loss.

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

Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

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

2 Accounting policies (continued)

2.16 Finance income

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

2.17 Other operating income

Other operating income includes revenue from all other operating activities which are not related to the principal activities of the Company.

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Microsoft Corporation as at 30 June 2019. These financial statements are available to the public and can be obtained as set out in note 22.

3 Critical accounting judgements and key sources of estimation uncertainty

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

The directors do not consider there to be any estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

4 Turnover and other revenue

	2019	2018
	£	£
Turnover analysed by class of business		
Royalties received	-	1,349,791
Revenue from milestones	-	15,366,462
Commission received	24,443,740	10,395,892
	24,443,740	27,112,145

Overseas turnover amounted to 51% (2018: 47%) of the total turnover for the year.

5 Operating profit/(loss)

Operating profit/(loss) for the year is stated after charging:	2019 £	2018 £
Depreciation of tangible fixed assets	2,119,711	913,359
Operating lease rentals	860,290	684,850
Fees payable for the audit of the financial statements	59,430	56,000

6 Staff costs

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

	2019 £	2018 £
Wages and salaries	14,307,587	12,367,816
Social security costs	1,747,574	1,492,924
Pension costs	855,082	662,705
	16,910,243	14,523,445

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

	2019 Number	2018 Number
Operational staff	186	173
Directors	-	2
	186	175

Post-acquisition the directors of the company are not employed by Playground Games Limited but are remunerated by the ultimate parent company, Microsoft Corporation. The directors on acquisition were reemployed by the Company as operational staff.

7 Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2019	2018
	£	£
Remuneration	-	236,618
Company contributions to defined contribution pension schemes	-	6,526
	-	243,144

The highest paid director received remuneration of £nil (2018 - £88,988).

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

8 Other interest receivable and similar income

	2019	2018
	£	£
Bank deposits	-	17,428
Intercompany interest receivable	205,639	159,670
Other interest receivable	-	3,151
	205,639	180,249

9 Interest payable and similar expenses

	2019	2018
	£	£
Finance leases and hire purchase contracts	1,436	6,421
Other interest payable	37,295	6,260
	38,731	12,681

10 Taxation

	2019	2018
	£	£
Current tax		
UK corporation tax on profits for the current period	338,552	5,591,979
Adjustments in respect of prior periods	(2,046)	45,712
Total current tax	336,506	5,637,691
Deferred tax		
Origination and reversal of timing differences	(140,658)	(29,225)
Changes in tax rates	14,806	3,077
Adjustment in respect of prior periods	-	(35,810)
Total deferred tax	(125,852)	(61,958)
Total tax charge	210,654	5,575,733

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

	2019	2018
	£	£
Profit before taxation	938,787	29,149,929
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	178,370	5,538,487
Tax effect of expenses that are not deductible in determining taxable profit	19,525	28,587
Adjustments in respect of prior years	(2,046)	9,902
Tax rate changes	14,806	3,077
Uplift on capital expenditure treated as qualifying land remediation expenditure	-	(4,320)
Unreconciled difference	(1)	-
Taxation charge for the year	210,654	5,575,733

11 Tangible fixed assets

	Short-term leasehold property	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2019	2,790,071	395,993	3,321,434	6,507,498
Additions	1,356,450	219,563	3,460,120	5,036,133
At 31 December 2019	4,146,521	615,556	6,781,554	11,543,631
Depreciation and impairment				
At 1 January 2019	491,184	138,586	2,317,224	2,946,994
Depreciation charged in the year	693,322	98,634	1,327,755	2,119,711
At 31 December 2019	1,184,506	237,220	3,644,979	5,066,705
Carrying amount				
At 31 December 2019	2,962,015	378,336	3,136,575	6,476,926
At 31 December 2018	2,298,887	257,407	1,004,210	3,560,504

12 Fixed asset investments

	Trade investments
	£
Cost or valuation	
At 1 January 2019	1
At 31 December 2019	1
At 31 December 2018	1

13 Investment in group undertakings

Details of the company's subsidiaries at 31 December 2019 are as follows:

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

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

14 Debtors

	2019 £	2018 £
Amounts owed by group undertakings	24,029,520	31,925,663
Other debtors	205,562	741,585
Prepayments and accrued income	785,851	753,082
Corporation taxation	583,672	-
Deferred taxation	158,223	32,371
	25,762,828	33,452,701

The intercompany loan is held with Microsoft Corporation, the ultimate parent company. This loan is repayable on demand and carries a variable interest rate. All amounts are due within one year and are unsecured.

15 Creditors: amounts falling due within one year

	2019	2018
	£	£
Obligations under leases and hire purchase contract	-	19,937
Trade creditors	394,116	409,656
Amounts owed to group undertakings	203,770	106,659
Corporation tax	-	5,528,647
Other taxation and social security	288,142	540,044
Other creditors	83,522	58,690
Accruals and deferred income	1,924,149	1,967,764
	2,893,699	8,631,397

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

16 Deferred taxation

	2019	2018
	£	£
At beginning of year	32,371	(29,587)
Credit to profit or loss	125,852	26,148
Adjustment in respect of prior years	-	35,810
At end of year	158,223	32,371

	2019	2018
	£	£
Accelerated capital allowances	144,237	22,394
Short term timing differences - trading	13,986	9,977
	158,223	32,371

17 Share capital

	2019	2018
	£	£
Ordinary share capital		
Issued and fully paid		
14,280 ordinary shares of £1 each (2018: 14,280)	14,280	14,280

18 Finance lease commitments

	2019	2018
	£	£
Not later than 1 year	-	19,937

19 Commitments under operating leases

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

	2019	2018
	£	£
Not later than 1 year	767,285	726,694
Later than 1 year and not later than 5 years	2,693,030	2,594,828
Later than 5 years	1,837,980	2,426,787
	5,298,295	5,748,309

20 Events after the reporting date

Substantive information came to light in early 2020 regarding the virus now identified as COVID-19. To date no events have occurred as a result of COVID-19 that would impact significantly on the financial statements. The directors do not expect this to have a significant impact on the company going forward in terms of its activity or its ability to continue as a going concern.

21 Employee benefits

Defined contribution plans
The amount recognised in profit or loss in relation to defined contribution plans was £885,082 (2018: £662,705).

22 Controlling party

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

The immediate parent undertaking is Playground Games Holdings Limited.