

PLAYGROUND GAMES LIMITED

Playground Games Limited

Financial Statements

31 December 2017

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PLAYGROUND GAMES LIMITED

Company Information

Directors	Benjamin Orndorff K R Dolliver
Registered number	07057499
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London United Kingdom EC2A 2RS
Independent auditors	Ernst & Young LLP No 1 Colmore Square Birmingham United Kingdom B4 6HQ

PLAYGROUND GAMES LIMITED

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PLAYGROUND GAMES LIMITED

Strategic Report For the Year Ended 31 December 2017

Acquisition

The ultimate parent undertaking is Microsoft Corporation (Microsoft). Microsoft is based in the USA and is listed on the New York Stock Exchange (NYSE). On 30 May 2018, Microsoft acquired Playground Games Holding Limited, the company's immediate parent entity. The results of the Company will be consolidated by Microsoft commencing in the accounting period ending 30 June 2018 and will be available on the company website at www.microsoft.com.

Business review

The principle activity of the Company during the year was the development of video game software.

In the year ended 31 December 2017 the Company's turnover increased by 115%. This year, the Company continued development on Forza Horizon 4 and also completed development on the very successful Hot Wheels branded expansion for Forza Horizon 3. Development also started on a new 'unannounced' project, widening the partnership with Xbox and Microsoft.

The increase in turnover was due to royalty payments on Forza Horizon 3 and expansion to a second team generating multiple sources of project income.

Gross and Operating Margin

The gross profit percentage decreased from 30% to 24% being a reflection of the earning of royalties across all the games sold, offset by costs of sale being principally staff costs. With increased director and staff costs as part of its ongoing investment into its existing and new development teams, this drove a slight decrease in operating profit percentage from 11% to 10%. These are our key performance indicators.

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 operates in a competitive global market. We continue to focus on the quality of our product to be more competitive and ability to win new development projects. The Company is now in development of a new video game, which is expected to run until 2020.

Results and Dividends

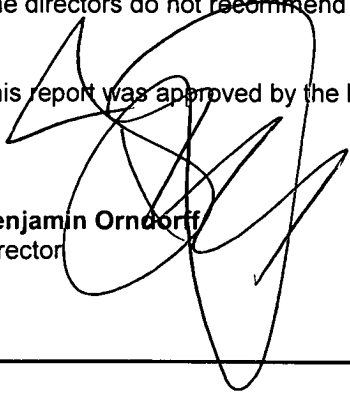
The results for the year are set out on page 8 of the accounts.

The directors do not recommend the payment of a dividend.

This report was approved by the board on

MAR 07 2019

and signed on its behalf.


Benjamin Orndorff
Director

PLAYGROUND GAMES LIMITED

Directors' Report For the Year Ended 31 December 2017

The directors present their report and the financial statements of the company for the year ended 31 December 2017.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements of the company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements of the company 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). 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 of the company, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements of the company 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 to enable them to ensure that the financial statements of the company 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.

Directors

The directors who served during the year and up to the date of this report were:

Benjamin Orndorff (appointed 30 May 2018)
K R Dolliver (appointed 29 May 2018)
G Raeburn (resigned 30 May 2018)
T R Williams (resigned 30 May 2018)
N C Wheelwright (resigned 30 May 2018)
R M Fulton (resigned 30 May 2018)

Going Concern

The company's business activities, together with the factors likely to affect its future development and details of company's exposure to risk are described in the strategic report.

In view of the above and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparation of the financial statements.

Future developments

The company will continue to work on multiple projects with Microsoft until 2020.

PLAYGROUND GAMES LIMITED

Directors' Report (continued) For the Year Ended 31 December 2017

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 auditors are 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 that the Company's auditors are aware of that information.

Auditors

The auditor, Ernst & Young LLP, is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on behalf.

MAR 07 2019

and signed on its

Benjamin Orndorff
Director



Independent Auditors' Report to the Shareholders of Playground Games Limited

Opinion

We have audited the financial statements of Playground Games Limited for the year ended 31 December 2017, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 below. 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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

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 the other information, we are required to report that fact.

Independent Auditors' Report to the Shareholders of Playground Games Limited (continued)

We have nothing to report in this regard.

Opinion on other matter 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 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, 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 2, 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

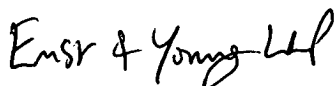
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditors' Report to the Shareholders of Playground Games Limited (continued)

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.



Adrian Roberts (Senior Statutory Auditor)
for and on behalf of

Ernst & Young LLP, Statutory Auditor
Birmingham, UK

Date:

8 March 2019

PLAYGROUND GAMES LIMITED

**Statement of Comprehensive Income
For the Year Ended 31 December 2017**

	Note	2017 £	2016 £
Turnover		56,525,919	26,268,756
Cost of sales		(42,930,515)	(18,312,538)
Gross profit		13,595,404	7,956,218
Administrative expenses		(8,105,288)	(5,022,910)
Other income		417	3,529
Operating profit	6	5,490,533	2,936,837
Interest receivable and similar income	9	16,108	8,136
Interest payable and expenses	10	(13,962)	(4,255)
Profit before tax		5,492,679	2,940,718
Tax on profit	11	27,715	(457,771)
Profit for the financial year		5,520,394	2,482,947

There was no other comprehensive income for 2017 (2016:£NIL).

The notes on pages 10 to 21 form part of these financial statements.

PLAYGROUND GAMES LIMITED

**Balance Sheet
As at 31 December 2017**

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	12	1,632,423	255,987
Investments	13	1	1
		<u>1,632,424</u>	<u>255,988</u>
Current assets			
Debtors: amounts falling due within one year	14	6,629,676	7,260,076
Cash at bank and in hand		9,039,098	4,128,720
		<u>15,668,774</u>	<u>11,388,796</u>
Creditors: amounts falling due within one year	15	(5,757,934)	(5,562,603)
Net current assets		<u>9,910,840</u>	<u>5,826,193</u>
Total assets less current liabilities		<u>11,543,264</u>	<u>6,082,181</u>
Creditors: amounts falling due after more than one year	16	(19,938)	(108,595)
Provisions for liabilities			
Deferred tax	17	(29,587)	(241)
		<u>(29,587)</u>	<u>(241)</u>
Net assets		<u><u>11,493,739</u></u>	<u><u>5,973,345</u></u>
Capital and reserves			
Called up share capital	18	14,280	14,280
Profit and loss account		11,479,459	5,959,065
Shareholders' funds		<u><u>11,493,739</u></u>	<u><u>5,973,345</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

MAR 07 2018

Benjamin Orndorff
Director

The notes on pages 10 to 21 form part of these financial statements.

PLAYGROUND GAMES LIMITED

**Statement of Changes in Equity
For the Year Ended 31 December 2017**

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2016	14,280	4,726,118	4,740,398
Comprehensive income for the year			
Profit for the year	-	2,482,947	2,482,947
Total comprehensive income for the year	-	2,482,947	2,482,947
Dividends: Equity capital	-	(1,250,000)	(1,250,000)
Total transactions with owners	-	(1,250,000)	(1,250,000)
At 1 January 2017	14,280	5,959,065	5,973,345
Comprehensive income for the year			
Profit for the year	-	5,520,394	5,520,394
Total comprehensive income for the year	-	5,520,394	5,520,394
At 31 December 2017	14,280	11,479,459	11,493,739

The notes on pages 10 to 21 form part of these financial statements.

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements (continued) For the Year Ended 31 December 2017

1. General information

Playground Games Limited is a company limited by shares incorporated 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 the 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 400 of the Companies Act 2006 on the basis that it is a subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA state.

The information is included in the consolidated financial statements of Playground Games Holdings Limited as at 31 December 2017 and these financial statements may be obtained from The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS.

The company has taken advantage of disclosure exemption from preparing a Statement of cashflows contained in FRS 102 Section 7.

2.3 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2.4 Turnover

Turnover is measured at the fair value of consideration received or receivable for goods supplied and 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.

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements (continued) For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.5 Taxation

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

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

2.6 Foreign currencies

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

2.7 Operating leases

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

2.8 Tangible fixed assets

Tangible assets are initially recorded at cost and are 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 an asset, less its 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.

PLAYGROUND GAMES LIMITED

Notes to the Financial Statements (continued) For the Year Ended 31 December 2017

2. Accounting policies (continued)

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 for 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 inflows that are largely independent of the cash inflows from other assets or group of assets.

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 settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in the profit or loss unless the provision was originally recognised as 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.

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

2. Accounting policies (continued)

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.

3. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The following are considered to have the most significant effect on the amounts recognised in the financial statements:

- Taxation - the determination of the amount of deferred tax assets that can be recognised, based on the likely level and timing of future profit.
- Fixed assets – the determination of the useful life is required to reduce the carrying value of tangible fixed assets

4. Turnover

Turnover arises from:

	2017 £	2016 £
Rendering of services	56,525,919	26,268,756

Overseas turnover amounted to 68% (2016: 67%) of the total turnover for the year.

5. Other operating income

	2017 £	2016 £
Other operating income	417	3,529

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

6. Operating profit

The operating profit is stated after charging:

	2017 £	2016 £
Depreciation of tangible fixed assets	347,967	244,030
Operating lease rentals	467,173	282,630
Fees payable for the audit of the financial statements	20,000	17,500
	<u> </u>	<u> </u>

7. Staff costs

The aggregate payroll costs incurred during the year were:

	2017 £	2016 £
Wages and salaries	10,874,328	8,908,441
Other pension costs	444,035	428,783
	<u> </u>	<u> </u>
	<u>11,318,363</u>	<u>9,337,224</u>

The average number of persons employed by the company during the year, including the directors, amounted to:

	2017	2016
Operational staff	128	123
Directors	4	4
	<u> </u>	<u> </u>
	<u>132</u>	<u>127</u>

8. Directors' remuneration

The directors aggregate remuneration in respect of qualifying services was:

	2017 £	2016 £
Remuneration	3,077,416	2,005,911
Company contributions to defined contribution pension schemes	15,356	14,643
	<u> </u>	<u> </u>

The highest paid director received remuneration of £1,258,824 (2016 - £901,669).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £14,715 (2016 - £14,016).

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

9. Other interest receivable and similar income

	2017 £	2016 £
Bank deposits	16,108	8,136
	<u>16,108</u>	<u>8,136</u>

10. Interest payable and similar expenses

	2017 £	2016 £
Finance leases and hire purchase contracts	13,962	4,255
	<u>13,962</u>	<u>4,255</u>

11. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	1,026,743	602,813
Adjustments in respect of previous periods	(1,083,804)	(134,283)
	<u>(57,061)</u>	<u>468,530</u>
Total current tax	<u>(57,061)</u>	<u>468,530</u>
Deferred tax		
Origination and reversal of timing differences	33,224	(10,621)
Changes to tax rates	(3,878)	1,048
Adjustments in respect of previous periods	-	(1,186)
Total deferred tax	<u>29,346</u>	<u>(10,759)</u>
Taxation (credit)/ charge on profit	<u>(27,715)</u>	<u>457,771</u>

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017

11. Taxation (continued)

Factors affecting tax (credit)/ charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Profit before tax	5,492,679	2,940,718
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	1,057,153	588,144
Effects of:		
Expenses not deductible for tax purposes	2,814	1,387
Adjustments to tax charge in respect of prior periods	(1,083,804)	(135,469)
Effects of capital allowances and depreciation	-	2,661
Tax rate changes	(3,878)	1,048
Total tax (credit)/ charge for the year	(27,715)	457,771

Factors that may affect future tax charges

The standard rate of UK Corporation Tax was reduced from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% due to take effect from 1 April 2020. This has been substantively enacted in the Finance Act 2016 on 6 September 2016 and in accordance with accounting standards, has been reflected in the company's financial statements.

During the year the company received a payment from HMRC in respect of VGTR of £1,218,087 relating to a prior year. All subsequent claims have been made from a separate company within the group.

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

12. Tangible fixed assets

	Short-term leasehold property £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2017	254,840	129,667	1,557,148	1,941,655
Additions	131,108	40,497	1,552,798	1,724,403
At 31 December 2017	385,948	170,164	3,109,946	3,666,058
Depreciation				
At 1 January 2017	228,760	96,075	1,360,833	1,685,668
Charge for the year on owned assets	35,312	18,950	293,705	347,967
At 31 December 2017	264,072	115,025	1,654,538	2,033,635
Net book value				
At 31 December 2017	121,876	55,139	1,455,408	1,632,423
At 31 December 2016	26,080	33,592	196,315	255,987

Included in the amounts for computer equipment above are the following amounts related to leased assets and assets acquired under hire purchase contracts:

	2017 £
Cost:	
At 1 January 2017 and 31 December 2017	106,937
Depreciation:	
At 1 January 2017	61,150
Depreciation provided during the year	45,787
At 31 December 2017	106,937
Carrying amount:	
At 31 December 2017	-
At 1 January 2017	45,787

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

13. Fixed asset investments

	Trade investments £
Cost or valuation	
At 1 January 2017	1
At 31 December 2017	1
At 31 December 2016	1

Investment in group undertakings

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

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

14. Debtors

	2017 £	2016 £
Amounts owed by group undertakings	-	60,068
Other debtors	208,229	29,969
Prepayments and accrued income	6,421,447	7,170,039
	<u>6,629,676</u>	<u>7,260,076</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

15. Creditors: Amounts falling due within one year

	2017 £	2016 £
Obligations under leases and hire purchase contracts	88,659	120,031
Trade creditors	279,708	57,680
Amounts owed to group undertakings	257,086	-
Corporation tax	704,603	468,530
Other taxation and social security	1,315,047	437,448
Other creditors	72,245	24,108
Accruals and deferred income	3,040,586	4,454,806
	<u>5,757,934</u>	<u>5,562,603</u>

16. Creditors: Amounts falling due after more than one year

	2017 £	2016 £
Obligations under leases and hire purchase contracts	19,938	108,595
	<u>19,938</u>	<u>108,595</u>

17. Deferred taxation

	2017 £	2016 £
At beginning of year	(241)	(11,000)
Charged to profit or loss	(29,346)	10,759
At end of year	<u>(29,587)</u>	<u>(241)</u>
	2017 £	2016 £
Accelerated capital allowances	(29,587)	(241)
	<u>(29,587)</u>	<u>(241)</u>

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

**18. Called up share capital
Issued, called up and fully paid**

	2017 No	£	2016 No	£
Ordinary shares of £1.00 each	14,280	14,280	14,280	14,280
	<u>14,280</u>	<u>14,280</u>	<u>14,280</u>	<u>14,280</u>

19. Finance lease commitments

	2017 £	2016 £
Not later than 1 year	88,659	120,031
Later than 1 year and not later than 5 years	19,937	108,596
	<u>108,596</u>	<u>228,627</u>

20. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Not later than 1 year	675,738	243,104
Later than 1 year and not later than 5 years	2,596,152	-
Later than 5 years	3,077,149	-
	<u>6,349,039</u>	<u>243,104</u>

The Company has signed a new lease agreement in 2017 for lease of property with annual rent of £280,042 until 2027.

21. Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £444,035 (2016: £428,783).

PLAYGROUND GAMES LIMITED

**Notes to the Financial Statements (continued)
For the Year Ended 31 December 2017**

22. Controlling party

On 30 May 2018, the acquisition of Playground Games Holding Limited by Microsoft Corporation was declared unconditional, making this entity the Company's ultimate parent undertaking from this date.

Copies of Playground Games Holdings Limited group financial statements, which include the company and are the smallest and largest consolidated accounts that the company is included in, are available from the Company Secretary at The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS.