

Registered number: 08848868 ✓

Playground Games Holdings Limited ✓

Annual report and financial statements

For the year ended 31 December 2017 ✓

FULL



Playground Games Holdings Limited ✓

Company Information

Directors	K R Dolliver (appointed 30 May 2018) Benjamin Orndorff (appointed 30 May 2018)
Registered number	08848868 ✓
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 Holdings Limited

Contents

	Page
Group strategic report	1
Directors' report	2 - 3
Independent auditors' report	4 - 6
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Company statement of financial position	9
Consolidated statement of changes in equity	10
Company statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the financial statements	13 - 27

Playground Games Holdings Limited

Group 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 Group 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 Group during the year was the development of video game software.

In the year ended 31 December 2017 the Group's turnover increased by 44%. This year, the Group 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 increased from 30% to 33% again due to higher than anticipated royalty payments on Forza Horizon 3. 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 2% to 1%. These are our key performance indicators.

Working Capital

The Group 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 Group 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 Group 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 7 of the accounts.

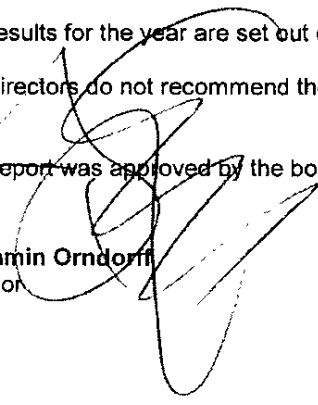
The directors do not recommend the payment of a dividend.

This report was approved by the board on

MAR 07 2019

and signed on its behalf.

Benjamin Orndorff
Director



Playground Games Holdings Limited

Directors' report For the year ended 31 December 2017

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

Directors

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

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)
Benjamin Orndorff (appointed 30 May 2018)
K R Dolliver (appointed 30 May 2018)

Results and Dividends

The results for the year are set out on page 7 of the accounts.

The directors do not recommend the payment of a dividend.

Going concern

The Group's business activities, together with the factors likely to affect its future development and details of group'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 group 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 Group will continue to work on multiple projects with Microsoft until 2020.

Financial instruments

It is a primary objective and policy of the directors of the Group 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 employees

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 group 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 Group'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 Group's financial performance by means of an annual bonus scheme for certain employees.

Playground Games Holdings Limited

Directors' report (continued)
For the year ended 31 December 2017

Directors' responsibilities statement

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 applicable law and 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'. 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

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 and the Group'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 and the Group's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Group since the year end other than acquisition by Microsoft as noted in the Strategic Report.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on **MAR 07 2019** and signed on its behalf.


Benjamin Orndorff
Director

Independent auditors' report to the shareholders of Playground Games Holdings Limited

Opinion

We have audited the financial statements of Playground Games Holdings Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017, which comprise the Consolidated Statement of comprehensive income, the Consolidated and Company Statements of financial position, the Consolidated and Company Statement of changes in equity and the Consolidated Statement of cash flows and the related notes 1 to 26, including a summary of significant accounting policies. 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).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's 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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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 Group's or the parent 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.

Independent auditors' report to the shareholders of Playground Games Holdings Limited (continued)

Other information (continued)

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 this regard.

Opinion 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 Group 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 Group strategic report and the 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 Group strategic report or the 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 on page 3, 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.

Independent auditors' report to the shareholders of Playground Games Holdings Limited (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Ernst & Young LLP

Adrian Roberts (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP

Birmingham, UK

Date:

8 March 2019

Playground Games Holdings Limited

**Consolidated statement of comprehensive income
For the year ended 31 December 2017**

	Note	2017 £	2016 £
Turnover		25,550,479	17,748,488
Cost of sales		(17,140,821)	(12,422,085)
Gross profit		8,409,658	5,326,403
Administrative expenses		(8,120,367)	(5,022,910)
Other operating income	5	417	3,529
Operating profit	6	289,708	307,022
Interest receivable and similar income	10	16,107	8,136
Interest payable and similar charges	11	(13,961)	(4,255)
Profit before income tax		291,854	310,903
Tax on profit	12	5,228,529	2,172,045
Profit for the year		5,520,383	2,482,948
Total comprehensive income for the year		5,520,383	2,482,948
Profit for the year attributable to:			
Owners of the parent Company		5,520,383	2,482,948
		5,520,383	2,482,948
Total comprehensive income for the year attributable to:			
Owners of the parent Company		5,520,383	2,482,948
		5,520,383	2,482,948

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

Playground Games Holdings Limited

**Consolidated statement of financial position
As at 31 December 2017**

	Note	2017 £	2016 £
Fixed assets			
Property, plant and equipment	14	1,632,423	255,987
		<u>1,632,423</u>	<u>255,987</u>
Current assets			
Trade and other receivables	16	14,482,119	9,901,667
Cash at bank and in hand		9,040,550	4,131,946
		<u>23,522,669</u>	<u>14,033,613</u>
Creditors: amounts falling due within one year	17	(13,611,840)	(8,207,419)
Net current assets		<u>9,910,829</u>	<u>5,826,194</u>
Total assets less current liabilities		<u>11,543,252</u>	<u>6,082,181</u>
Creditors: amounts falling due after more than one year	18	(19,938)	(108,596)
Provisions for liabilities			
Deferred taxation	20	(29,587)	(241)
		<u>(29,587)</u>	<u>(241)</u>
Net assets		<u><u>11,493,727</u></u>	<u><u>5,973,344</u></u>
Capital and reserves			
Called up share capital	21	14,280	14,280
Profit and loss account	22	11,479,447	5,959,064
Equity attributable to owners of the parent Company		<u>11,493,727</u>	<u>5,973,344</u>
Shareholders' funds		<u><u>11,493,727</u></u>	<u><u>5,973,344</u></u>

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

MAR 07 2019

Benjamin Orndorff
Director

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

Playground Games Holdings Limited

Company statement of financial position
As at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Investments	15	14,380	14,380
		<u>14,380</u>	<u>14,380</u>
Creditors: amounts falling due within one year	17	(100)	(100)
Net current liabilities		<u>(100)</u>	<u>(100)</u>
Total assets less current liabilities		<u>14,280</u>	<u>14,280</u>
Net assets		<u>14,280</u>	<u>14,280</u>
Capital and reserves			
Called up share capital	21	14,280	14,280
Shareholders' funds		<u>14,280</u>	<u>14,280</u>

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

MAR 07 2019

Benjamin Orndorff
Director

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

Playground Games Holdings Limited

**Consolidated statement of changes in equity
For the year ended 31 December 2017**

	Called up share capital £	Profit and loss account £	Equity attributable to owners of parent Company £	Total equity £
At 1 January 2016	14,280	4,726,116	4,740,396	4,740,396
Comprehensive income for the year				
Profit for the year	-	2,482,948	2,482,948	2,482,948
Total comprehensive income for the year	-	2,482,948	2,482,948	2,482,948
Dividends: Equity capital	-	(1,250,000)	(1,250,000)	(1,250,000)
Total transactions with owners	-	(1,250,000)	(1,250,000)	(1,250,000)
At 1 January 2017	14,280	5,959,064	5,973,344	5,973,344
Comprehensive income for the year				
Profit for the year	-	5,520,383	5,520,383	5,520,383
Total comprehensive income for the year	-	5,520,383	5,520,383	5,520,383
At 31 December 2017	14,280	11,479,447	11,493,727	11,493,727

Playground Games Holdings Limited

**Company statement of changes in equity
For the year ended 31 December 2017**

	Called up share capital £	Total equity £
At 1 January 2016	14,280	14,280
Total comprehensive income for the year	-	-
At 1 January 2017	14,280	14,280
Total comprehensive income for the year	-	-
At 31 December 2017	14,280	14,280

Playground Games Holdings Limited

**Consolidated statement of cash flows
For the year ended 31 December 2017**

	Note	2017 £	2016 £
Cash flows from operating activities			
Profit for the financial year		5,520,383	2,482,948
Adjustments for:			
Depreciation charges	6	347,967	244,030
Interest receivables and similar income	10	(16,107)	(8,136)
Interest payable and similar charges	11	13,961	4,255
Taxation charge	12	(5,228,529)	(2,172,045)
Increase in debtors	16	(2,009,445)	(4,736,960)
Increase in creditors	17	5,199,711	4,934,010
Increase in tax received		2,922,951	1,359,698
Net cash generated from operating activities		<u>6,750,892</u>	<u>2,107,800</u>
Cash flows from investing activities			
Purchase of tangible fixed assets	14	(1,724,403)	(150,110)
Interest received	10	16,107	8,136
Net cash from investing activities		<u>(1,708,296)</u>	<u>(141,974)</u>
Cash flows from financing activities			
Payment of finance lease liabilities	19	(120,031)	128,856
Interim dividend paid		-	(1,250,000)
Interest paid	11	(13,961)	(4,255)
Net cash used in financing activities		<u>(133,992)</u>	<u>(1,125,399)</u>
Net increase in cash and cash equivalents		<u>4,908,604</u>	<u>840,427</u>
Cash and cash equivalents at beginning of year		4,131,946	3,291,519
Cash and cash equivalents at the end of year		<u><u>9,040,550</u></u>	<u><u>4,131,946</u></u>
Cash and cash equivalents at the end of year comprise:			
Cash at bank and in hand		9,040,550	4,131,946
		<u><u>9,040,550</u></u>	<u><u>4,131,946</u></u>

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

Playground Games Holdings Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

1. Statutory Information

Playground Games Holdings 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 consolidated financial statements have been prepared on the historical cost basis. These consolidated financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'. The consolidated financial statements are prepared in sterling, which is the functional currency of the entity. Monetary amounts in these consolidated financial statements are rounded to the nearest £.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

2. Accounting policies (continued)

recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the Group 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 Group and the third party.

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.

Playground Games Holdings Limited

**Notes to the financial statements (continued)
For the year ended 31 December 2017**

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 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.

2.9 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.

2.10 Fixed asset investments

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

2.11 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.

2.12 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.

Playground Games Holdings Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

2. Accounting policies (continued)

2.13 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.

2.14 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.

Employee benefit costs

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to the income statement in the period to which they relate.

2.15 Financial instruments

The group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

2. Accounting policies (continued)

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

2.16 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Statement of financial position date. *Gains and losses on remeasurement are recognised in profit or loss for the period.*

3. Judgments 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

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

4. Turnover

An analysis of turnover by class of business is as follows:

	2017 £	2016 £
Rendering of services	25,550,479	17,748,488
	25,550,479	17,748,488

The revenue attributable to the one principal activity of the group. An analysis of revenue by the geographical markets that substantially differ from each other is given below:

	2017 £	2016 £
Overseas revenue	25,550,479	17,748,488
	25,550,479	17,748,488

5. Other operating income

	2017 £	2016 £
Other operating income	417	3,529
	417	3,529

6. Operating profit

The operating profit is stated after charging:

	2017 £	2016 £
Depreciation of tangible assets	347,967	244,030
Operating lease rental	467,173	282,630
Defined contribution plans expense	444,035	428,783

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

7. Auditors' remuneration

	2017 £	2016 £
Fees payable for the audit of the financial statements	20,000	17,500
	<u>20,000</u>	<u>17,500</u>
Fees payable to the Group's auditor and its associates in respect of:		
Fees payable for non-audit work	<u>11,500</u>	<u>11,500</u>

8. 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>11,318,363</u>	<u>9,337,224</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No
Number of staff	<u>132</u>	<u>127</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

9. Directors' remuneration

	2017	2016
	£	£
Directors' remuneration	3,077,416	2,005,911
Excess retirement benefits of directors and past directors	15,356	14,643
	<u>3,092,772</u>	<u>2,020,554</u>

The remuneration of the highest paid director in respect of qualifying services during the year was £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).

10. Interest receivable and similar income

	2017	2016
	£	£
Bank deposits	16,107	8,136
	<u>16,107</u>	<u>8,136</u>

11. Interest payable and similar charges

	2017	2016
	£	£
Interest on obligations under finance lease and hire purchase contracts	13,961	4,255
	<u>13,961</u>	<u>4,255</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

12. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	(4,174,071)	(2,027,003)
Adjustments in respect of previous periods	(1,083,804)	(134,283)
	<u>(5,257,875)</u>	<u>(2,161,286)</u>
Total current tax	<u>(5,257,875)</u>	<u>(2,161,286)</u>
Deferred tax		
Origination and reversal of timing differences	33,224	(10,621)
Adjustment in respect of prior year	-	(1,186)
Changes to tax rates	(3,878)	1,048
Total deferred tax	<u>29,346</u>	<u>(10,759)</u>
Taxation credit on profit	<u>(5,228,529)</u>	<u>(2,172,045)</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

12. Taxation (continued)

Factors affecting tax credit 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	<u>291,854</u>	<u>310,903</u>
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	56,182	62,181
Effects of:		
Expenses not deductible for tax purposes	2,814	1,387
Effect of capital allowances and depreciation	-	2,661
Enhanced losses arising from the video game tax credit	(2,924,669)	(1,746,058)
Difference between the rate of corporation tax and the rate of relief under the video game tax credit	(1,196,902)	(525,963)
Adjust closing deferred tax to average rate of 20%	-	25,225
Adjustments to tax charge in respect of prior periods	(1,083,804)	(135,469)
Deferred tax not recognised	(78,272)	142,943
Tax rate changes	(3,878)	1,048
Total tax credit for the year	<u><u>(5,228,529)</u></u>	<u><u>(2,172,045)</u></u>

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.

13. Profit for the year of the parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £nil (2016 - £nil).

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

14. Tangible fixed assets

Group

	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	<u>385,948</u>	<u>170,164</u>	<u>3,109,946</u>	<u>3,666,058</u>
Depreciation				
At 1 January 2017	228,760	96,075	1,360,833	1,685,668
Charge for the year	35,312	18,950	293,705	347,967
At 31 December 2017	<u>264,072</u>	<u>115,025</u>	<u>1,654,538</u>	<u>2,033,635</u>
Net book value				
At 31 December 2017	<u>121,876</u>	<u>55,139</u>	<u>1,455,408</u>	<u>1,632,423</u>
At 31 December 2016	<u>26,080</u>	<u>33,592</u>	<u>196,315</u>	<u>255,987</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2017 £	2016 £
Cost	106,937	106,937
Depreciation brought forward	(61,150)	(25,505)
Depreciation provided	(45,787)	(35,645)
	<u>-</u>	<u>45,787</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

15. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Playground Games Limited	Ordinary	100 %	Development of video game software
Playground Mobile Limited	Ordinary	100 %	Dormant
PG Game Development Limited	Ordinary	100 %	Development of video games

The registered office for all the above subsidiaries is:

The Broadgate Tower, Third Floor, 20 Primrose Street, London, EC2A 2RS.

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2017	14,380
At 31 December 2017	<u>14,380</u>
Net book value	
At 31 December 2017	<u>14,380</u>
At 31 December 2016	<u>14,380</u>

The Group has no investments.

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

16. Trade and other receivables

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Other debtors	2,859,801	101,764	-	-
Prepayments and accrued income	6,421,447	7,170,039	-	-
Tax recoverable	5,200,871	2,629,864	-	-
	<u>14,482,119</u>	<u>9,901,667</u>	<u>-</u>	<u>-</u>

17. Creditors: Amounts falling due within one year

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade creditors	279,708	57,680	-	-
Amounts owed to group undertakings	-	-	100	100
Corporation tax	704,612	468,530	-	-
Other taxation and social security	1,315,047	437,448	-	-
Obligations under finance lease and hire purchase contracts	88,659	120,031	-	-
Other creditors	7,902,884	2,668,924	-	-
Accruals and deferred income	3,320,930	4,454,806	-	-
	<u>13,611,840</u>	<u>8,207,419</u>	<u>100</u>	<u>100</u>

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

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Obligations under finance leases and hire purchase contracts	19,938	108,596	-	-
	<u>19,938</u>	<u>108,596</u>	<u>-</u>	<u>-</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

19. Finance lease commitments

Minimum lease payments under hire purchase fall due as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 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>	<u>-</u>	<u>-</u>

20. Deferred taxation

Group

	2017 £	2016 £
At beginning of year	(241)	(11,000)
Movement in the period (note 12)	(29,346)	10,759
At end of year	<u>(29,587)</u>	<u>(241)</u>

The provision for deferred taxation is made up as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Accelerated capital allowances	(29,587)	(241)	-	-
	<u>(29,587)</u>	<u>(241)</u>	<u>-</u>	<u>-</u>

21. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
1,428,000 Ordinary shares of £0.01 each	<u>14,280</u>	<u>14,280</u>

Playground Games Holdings Limited

Notes to the financial statements (continued)
For the year ended 31 December 2017

22. Reserves

Profit and loss account

This reserve records retained earnings and accumulated losses.

23. Employee benefits

Defined contribution plans

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

24. Commitments under operating leases

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

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

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

25. Related party transactions

Related party transactions are disclosed in note 9 in these financial statements.

26. 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.

The Group will be consolidated under Microsoft Inc for the year ending 31 December 2018.